

APPENDIX A

THE STATE OF CALIFORNIA



*Honorable Philip Angelides
Treasurer of the State of California*

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OVERVIEW OF STATE GOVERNMENT

Organization of State Government

The State Constitution provides for three separate branches of government: the legislative, the judicial and the executive. The Constitution guarantees the electorate the right to make basic decisions, including amendments to the Constitution and local government charters. In addition, the State voters may directly influence State government through the initiative, referendum and recall processes.

California's Legislature consists of a forty-member Senate and an eighty-member Assembly. Assembly members are elected for two-year terms, and Senators are elected for four-year terms. Assembly members are limited to three terms in office and Senators to two terms. The Legislature meets almost year round for a two-year session. The Legislature employs the Legislative Analyst, who provides reports on State finances, among other subjects. The Bureau of State Audits, headed by the State Auditor, an independent office since 1993, has annually issued an auditor's report based on an examination of the General Purpose Financial Statements of the State Controller, in accordance with generally accepted accounting principles.

The Governor is the chief executive officer of the State and is elected for a four-year term. The Governor presents the annual budget and traditionally presents an annual package of bills constituting a legislative program. In addition to the Governor, State law provides for seven other statewide elected officials in the executive branch. The current elected statewide officials, their party affiliation and the dates on which they were first elected, are as follows:

<u>Office</u>	<u>Name</u>	<u>Party Affiliation</u>	<u>First Elected</u>
Governor	Gray Davis	Democrat	1998
Lieutenant Governor	Cruz Bustamante	Democrat	1998
Treasurer	Philip Angelides	Democrat	1998
Attorney General.....	Bill Lockyer	Democrat	1998
Controller.....	Kathleen Connell	Democrat	1994
Secretary of State.....	Bill Jones	Republican	1994
Superintendent of Public Instruction	Delaine Eastin	Democrat	1994
Insurance Commissioner.....	Chuck Quackenbush	Republican	1994

The current term for each office expires in January 2003. Persons elected to statewide offices are limited to two terms in office.

The executive branch is principally administered through thirteen major agencies and departments: Business, Transportation and Housing Agency, Child Development and Education Agency, Environmental Protection Agency, Department of Finance, Department of Food and Agriculture, Health and Human Services Agency, Department of Industrial Relations, Resources Agency, State and Consumer Services Agency, Department of Veterans Affairs, Trade and Commerce Agency, and Youth and Adult Correctional Agency. In addition, some state programs are administered by boards and commissions, such as The Regents of the University of California, Public Utilities Commission, Franchise Tax Board and California Transportation

Commission, which have authority over many functions of state government with the power to establish policy and promulgate regulations. The appointment of members of boards and commissions is usually shared by the Legislature and the Governor, and often includes ex officio members.

California has a comprehensive system of public higher education comprised of three sectors: the University of California, the California State University System and California Community Colleges. The University of California provides undergraduate, graduate and professional degrees to students. Approximately 42,400 degrees were awarded in the 1998-99 school year. About 179,600 full-time students were enrolled at the nine UC campuses and the Hastings School of Law in the fall of 1999. The California State University System, consisting of 23 campuses, provides undergraduate and graduate degrees to students. Approximately 68,500 degrees were awarded in the 1998-99 school year. About 274,000 full-time students were enrolled at the 23 campuses. The third sector consists of 107 campuses operated by 72 community college districts which provide associate degrees and certificates. Approximately 92,000 associate degrees and certificates were awarded in the 1998-99 school year. About 1.5 million students were enrolled in California's community colleges in the fall of 1999.

Employee Relations

In 1999-00, the State work force is estimated to be comprised of approximately 299,000 personnel years, of which approximately 96,000 personnel years represent employees of institutions of higher education. Of the remaining 203,000 personnel years, approximately 150,000 are subject to collective bargaining and approximately 53,000 are excluded from collective bargaining. The California State Employees' Association (CSEA), represents 9 of the 21 collective bargaining units, or approximately 52 percent of those employees subject to collective bargaining.

State law provides that state employees, defined as any civil service employee of the State and teachers under the jurisdiction of the Department of Education or the Superintendent of Public Instruction, and excluding certain other categories, have a right to form, join, and participate in the activities of employee organizations for the purpose of representation on all matters of employer-employee relations. The chosen employee organization has the right to represent its members, except that once an employee organization is recognized as the exclusive representative of a bargaining unit, only that organization may represent employees in that unit.

The scope of representation is limited to wages, hours, and other terms and conditions of employment. Representatives of the Governor are required to meet and confer in good faith and endeavor to reach agreement with the employee organization, and, if agreement is reached, to prepare a memorandum of understanding (MOU) and present it to the Legislature for ratification. The Governor and the recognized employee organization are authorized to agree mutually on the appointment of a mediator for the purpose of settling any disputes between the parties, or either party could request the Public Employment Relations Board to appoint a mediator.

The State has ratified new two-year MOUs effective July 1, 1999, with all twenty-one collective bargaining units. The State has not experienced a major work stoppage in the last 23 years.

Employees' Retirement Systems

The information below has been provided by the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS). For further information concerning these retirement systems, please see the website for CalPERS at www.calpers.ca.gov and the website for CalSTRS at www.calstrs.ca.gov.

CalPERS and CalSTRS are two retirement systems administered by the State. The pension liability for all the pension trust funds administered by CalPERS is determined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25. CalPERS' and CalSTRS' investments are reported at fair value, generally determined based on published market prices, quotations from major investment firms, and other factors for assets without a published market price.

CalPERS administers five defined benefit retirement plans: the Public Employees' Retirement System (PERS), the Judges' Retirement System, the Judges' Retirement System II, the Legislators' Retirement System, and the Volunteer Firefighters' Length of Service Award Fund. CalPERS also administers two defined contribution plans, the State Peace Officers' and Firefighters' Defined Contribution Plan and the Supplemental Contributions Program. CalPERS also administers a deferred compensation plan – the CalPERS 457 Plan. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained by writing to the California Public Employees' Retirement System, Central Supply, P.O. Box 942715, Sacramento, California 94229-2715.

CalPERS uses the accrual basis of accounting. Member contributions are recorded when due. Employer contributions are recorded when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due in accordance with the terms of each plan.

All State, classified school and participating local agency employees who work on a half time or more basis are eligible to participate in PERS. Benefits are based on members' years of service, age, final compensation, and benefit formula as calculated under the applicable plans. Vesting occurs after five or ten years depending on the plan. All plans provide death, disability, and survivor benefits. The benefits provisions under each plan are established by statute.

Under the State Constitution, CalPERS has the authority to invest in stocks, bonds, mortgages, real estate, and other prudent investments. CalPERS also holds investments in futures and options and enters into forward foreign currency exchange contracts. CalPERS had assets with a fair market value of \$168 billion as of February 29, 2000.

The PERS is administered by the Board of Administration of CalPERS. As of June 30, 1999, employers participating in PERS include the State, 61 school employers, 1,311 public agencies and certain special purpose authorities, which are legally separate from the State. At June 30, 1999, PERS had approximately 343,341 retirees, survivors and beneficiaries receiving a monthly allowance and 816,512 active and inactive members. Information concerning the other four plans administered by CalPERS, which are much smaller than PERS, is contained in the State's audited financial statements. See "Financial Statements" below.

Benefits are funded by contributions from members and the employers and earnings from investments. Member and employer contributions are a percentage of the applicable member's compensation. The contribution from members is defined by law and based on the applicable benefit formula. The employer contribution rates are determined by periodic actuarial valuations. State contributions are paid quarterly and other employer contributions are paid monthly. The net assets in excess of the total actuarial accrued liability of PERS relating to State employees was \$6.817 billion as of June 30, 1998. PERS had assets with a total actuarial value of \$128.8 billion as of June 30, 1998.

CalSTRS administers the California State Teachers' Retirement Fund (TRF), which is comprised of two distinct benefit plans: a Defined Benefit (DB) Program as set forth in Part 13 of the California Education Code and a Cash Balance (CB) Benefit Program as set forth in Part 14 of the California Education Code. Together, Parts 13 and 14 are referred to as the "Teachers' Retirement Law." CalSTRS also offers through a third party administrator a defined contribution plan that meets the requirements of the Internal Revenue Code Section 403(b) and is open to any employee who is eligible to participate. CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information on the plans. This report may be obtained from the California State Teachers' Retirement System, Audits Division, 7667 Folsom Boulevard, 2nd Floor, Sacramento, California 95826.

CalSTRS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and State contributions are recognized when due and the employer or the State has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the retirement program. CalSTRS' investments consist of government, corporate, and international bonds, domestic and international equities, mutual funds, limited partnership holdings, real estate, mortgages, and other investments. At March 31, 2000, CalSTRS had reported assets of \$114.119 billion.

CalSTRS administers the TRF, a cost sharing multiple-employer defined benefit retirement plan that provides pension benefits to teachers and certain other employees of the California public school system. Membership in the TRF is mandatory for all employees meeting the eligibility requirements. The State Teachers' Retirement Law establishes the benefits for the TRF. At June 30, 1999, the TRF had approximately 1,160 contributing school districts. At June 30, 1998, there were 471,332 plan members, and 161,457 benefit recipients. The State is a nonemployer contributor to the TRF.

Benefits for the DB Program are funded under the TRF by contributions from members, employers, the State, and earnings from investments. Member and employer contributions are a percentage of applicable member earnings. The State Teachers' Retirement Law governs member rates (8 percent of the applicable member's earnings), employer contribution rates (8.25 percent of the applicable member's earnings), and the State's contributions. The State's quarterly contribution to CalSTRS, commencing October 1, 1998, is set at 3.102 percent of the total of the creditable compensation of the prior calendar year upon which members' contributions are based, plus up to 1.5 percent of the total of the creditable compensation of the prior calendar year upon which members' contributions are based, which is contributed until the unfunded obligation and any normal cost deficit for the benefits in effect on July 1, 1990 is eliminated. Currently there is no unfunded obligation or normal cost deficit. Therefore, no contributions are being made for this purpose. For the year ended June 30, 1998, the excess of actuarial value of assets over actuarial accrued liability for the TRF, was \$3.056 billion and the actuarial value of assets was \$77.290 billion.

CalSTRS administers the CB Benefit Program as a separate defined benefit plan designed for the employees of California public schools who are hired to perform creditable service for less than 50 percent of the full time equivalent for the position. At December 31, 1999, the CB Benefit Program had 20 contributing school districts, 7,444 contributing participants and assets of \$6.5 million.

Year 2000-Related Information Technology

The State's Department of Information Technology has received no reports that the State experienced any interruption in the delivery of mission critical services as a result of the date change to the Year 2000 or during the leap year period of February 28-29 and March 1, 2000.

STATE INDEBTEDNESS

General

The State Treasurer is responsible for the sale of debt obligations of the State and its various authorities and agencies. The State has always paid the principal of and interest on its general obligation bonds, general obligation commercial paper, lease-purchase debt and short-term obligations, including revenue anticipation notes and revenue anticipation warrants, when due.

Capital Facilities Financing

General Obligation Bonds - The State Constitution prohibits the creation of general obligation indebtedness of the State unless a bond law is approved by a majority of the electorate voting at a general election or a direct primary. General obligation bond acts provide that debt service on general obligation bonds shall be appropriated annually from the General Fund and all debt service on general obligation bonds is paid from the General Fund. Under the State Constitution, debt service on general obligation bonds is the second charge to the General Fund after the application of moneys in the General Fund to the support of the public school system

and public institutions of higher education. Certain general obligation bond programs receive revenues from sources other than the sale of bonds or the investment of bond proceeds.

As of April 1, 2000, the State had outstanding \$20,637,886,000 aggregate principal amount of long-term general obligation bonds, and unused voter authorizations for the future issuance of \$15,672,749,000 of long-term general obligation bonds. This latter figure consists of \$3,641,734,000 of authorized commercial paper notes, described below (of which \$773,565,000 was outstanding), which had not yet been refunded by general obligation bonds, and \$12,031,015,000 of other authorized but unissued general obligation debt (including the most recent voter authorizations). See the table "Authorized and Outstanding General Obligation Bonds" under "State Debt Tables" following page A-45.

The General Obligation Bond Law permits the State to issue variable rate indebtedness, up to 20 percent of the aggregate amount of long-term general obligation bonds outstanding. As of April 1, 2000, there was no variable rate indebtedness outstanding; however, the State plans to issue such indebtedness in the future.

At the March 7, 2000 election, voters approved four bond acts, totaling \$4.470 billion in new authorizations and rejected one bond act for \$220 million. Additional bond authorizations may be voted at the November 7, 2000 election.

Commercial Paper Program - Pursuant to legislation enacted in 1995, voter approved general obligation indebtedness may be issued either as long-term bonds, or, for some but not all bond acts, as commercial paper notes. Commercial paper notes may be renewed or may be refunded by the issuance of long-term bonds. The State issues long-term general obligation bonds from time to time to retire its general obligation commercial paper notes. Pursuant to the terms of the bank credit agreement presently in effect supporting the general obligation commercial paper program, not more than \$1.5 billion of general obligation commercial paper notes may be outstanding at any time; this amount may be increased or decreased in the future. Commercial paper notes are deemed issued upon authorization by the respective Finance Committees, whether or not such notes are actually issued. As of April 1, 2000, the Finance Committees had authorized the issuance of up to \$3,641,734,000 of commercial paper notes; as of that date \$773,565,000 aggregate principal amount of general obligation commercial paper notes was outstanding.

Lease-Purchase Debt - In addition to general obligation bonds, the State builds and acquires capital facilities through the use of lease-purchase borrowing. Under these arrangements, the State Public Works Board, another State or local agency or a joint powers authority issues bonds to pay for the construction of facilities such as office buildings, university buildings or correctional institutions. These facilities are leased to a State agency or the University of California under a long-term lease which provides the source of payment of the debt service on the lease-purchase bonds. In some cases, there is not a separate bond issue, but a trustee directly creates certificates of participation in the State's lease obligation, which are marketed to investors. Under applicable court decisions, such lease arrangements do not constitute the creation of "indebtedness" within the meaning of the Constitutional provisions which require voter approval. For purposes of this section of the Official Statement and the tables following, "lease-purchase debt" or "lease-purchase financing" means principally bonds or

certificates of participation for capital facilities where the rental payments providing the security are a direct or indirect charge against the General Fund and also includes revenue bonds for a State energy efficiency program secured by payments made by various State agencies under energy service contracts. Certain of the lease-purchase financings are supported by special funds rather than the General Fund (see “State Finances--Sources of Tax Revenue”). The table does not include equipment leases or leases which were not sold, directly or indirectly, to the public capital market. The State had \$6,679,494,434 General Fund-supported lease-purchase debt outstanding at April 1, 2000. The State Public Works Board, which is authorized to sell lease revenue bonds, had \$1,859,518,000 authorized and unissued as of April 1, 2000.

Non-Recourse Debt - Certain State agencies and authorities issue revenue obligations for which the General Fund has no liability. Revenue bonds represent obligations payable from State revenue-producing enterprises and projects, which are not payable from the General Fund, and conduit obligations payable only from revenues paid by private users of facilities financed by the revenue bonds. The enterprises and projects include transportation projects, various public works projects, public and private educational facilities (including the California State University and University of California systems), housing, health facilities and pollution control facilities. There are 17 agencies and authorities authorized to issue revenue obligations (excluding lease-purchase debt). State agencies and authorities had \$26,008,006,628 aggregate principal amount of revenue bonds and notes which are non-recourse to the General Fund outstanding as of June 30, 1999, as further described in the table “State Agency Revenue Bonds and Conduit Financing” under “State Debt Tables” following page A-45.

Detailed tables showing the State’s long-term debt appear after page A-45.

Cash Flow Borrowings

As part of its cash management program, the State has regularly issued short-term obligations to meet cash flow needs. The following table shows the amount of revenue anticipation notes (“Notes”) issued over the past five fiscal years. See “Prior Fiscal Years’ Financial Results” and “Current State Budget” below. The State issued \$1.0 billion of revenue anticipation notes for the 1999-2000 Fiscal Year to mature on June 30, 2000.

State of California Revenue Anticipation Notes Issued Fiscal Years 1995-96 to 1999-2000

<u>Fiscal Year</u>	<u>Type</u>	<u>Principal Amount (Billions)</u>	<u>Date of Issue</u>	<u>Maturity Date</u>
1995-1996	Notes	\$2.0	April 25, 1996	June 28, 1996
1996-1997	Notes Series A-C	3.0	August 6, 1996	June 30, 1997
1997-1998	Notes	3.0	September 9, 1997	June 30, 1998
1998-1999	Notes	1.7	October 1, 1998	June 30, 1999
1999-2000	Notes Series A-B	1.0	October 1, 1999	June 30, 2000

SOURCE: State of California, Office of the Treasurer.

STATE FINANCES

The Budget Process

The State's fiscal year begins on July 1 and ends on June 30. The State operates on a budget basis, using a modified accrual system of accounting, with revenues credited in the period in which they are measurable and available and expenditures debited in the period in which the corresponding liabilities are incurred.

The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under state law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each House of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Bills containing K-14 education appropriations only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution. There is litigation pending concerning the validity of such continuing appropriations. See "Litigation" below.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

The General Fund

The moneys of the State are segregated into the General Fund and over 900 special funds, including bond, trust and pension funds. The General Fund consists of revenues received by the State Treasury and not required by law to be credited to any other fund, as well as earnings from the investment of state moneys not allocable to another fund. The General Fund is the principal operating fund for the majority of governmental activities and is the depository of most of the major revenue sources of the State. For additional financial data relating to the General Fund, see Exhibit 1 to this Appendix A. The General Fund may be expended as a consequence of appropriation measures enacted by the Legislature and approved by the Governor, as well as appropriations pursuant to various constitutional authorizations and initiative statutes.

The Special Fund for Economic Uncertainties

The Special Fund for Economic Uncertainties (“SFEU”) is funded with General Fund revenues and was established to protect the State from unforeseen revenue reductions and/or unanticipated expenditure increases. Amounts in the SFEU may be transferred by the State Controller as necessary to meet cash needs of the General Fund. The State Controller is required to return moneys so transferred without payment of interest as soon as there are sufficient moneys in the General Fund.

The legislation creating the SFEU (Government Code §16418) contains a continuous appropriation from the General Fund authorizing the State Controller to transfer to the SFEU, as of the end of each fiscal year, the lesser of (i) the unencumbered balance in the General Fund and (ii) the difference between the State’s “appropriations subject to limitation” for the fiscal year then ended and its “appropriations limit” as defined in Section 8 of Article XIII B of the State Constitution and established in the Budget Act for that fiscal year, as jointly estimated by the State’s Legislative Analyst’s Office and the Department of Finance. For a further description of Article XIII B, see “State Appropriations Limit” below. In certain circumstances, moneys in the SFEU may be used in connection with disaster relief.

For budgeting and accounting purposes, any appropriation made from the SFEU is deemed an appropriation from the General Fund. For year-end reporting purposes, the State Controller is required to add the balance in the SFEU to the balance in the General Fund so as to show the total moneys then available for General Fund purposes.

The June 30, 2000, SFEU projection reflects the latest revenue projections and expenditure amounts as updated in the May 2000 Revision to the 2000-01 Governor’s Budget (the “May Revision”). As in any year, the Budget Act and related trailer bills are not the only pieces of legislation which appropriate funds. Other factors including re-estimates of revenues and expenditures, existing statutory requirements, and additional legislation introduced and passed by the Legislature may impact the reserve amount.

At the time of the release of the May Revision, on May 15, 2000, the Department of Finance projected the SFEU would have a balance of about \$6.920 billion at June 30, 2000, compared to the amount of \$880 million projected at the time the 1999 Budget Act was signed on June 29, 1999, and the amount of \$2.420 billion projected in the 2000-01 Governor’s Budget released January 10, 2000. See “Current State Budget” below.

Inter-Fund Borrowings

Inter-fund borrowing has been used for many years to meet temporary imbalances of receipts and disbursements in the General Fund. As of June 30, 1999, the General Fund had no outstanding loans from the SFEU, General Fund special accounts or other special funds.

In the event the General Fund is or will be exhausted, the State Controller is required to notify the Governor and the Pooled Money Investment Board (the “PMIB,” consisting of the State Director of Finance, the State Treasurer and the State Controller). The Governor may then

order the State Controller to direct the transfer of all or any part of the moneys not needed in special funds to the General Fund from such special funds, as determined by the PMIB. All money so transferred must be returned to the special fund from which it was transferred as soon as there is sufficient money in the General Fund to do so. Transfers cannot be made from a special fund which will interfere with the objective for which such special fund was created, or from certain specific funds. When moneys transferred to the General Fund in any fiscal year from any special fund pursuant to the inter-fund borrowing mechanism exceed ten percent of the total additions as shown in the statement of operations of the preceding fiscal year as set forth in the Budgetary (Legal Basis) annual report of the State Controller, interest must be paid on such excess at a rate determined by the PMIB to be the current earning rate of the Pooled Money Investment Account.

Although any determination of whether a proposed borrowing from one of the special funds is permissible, any such determination must be made with regard to the facts and circumstances existing at the time of the proposed borrowing. The Attorney General of the State has identified certain criteria relevant to such a determination. For instance, amounts in the special funds eligible for inter-fund borrowings are legally available to be transferred to the General Fund if a reasonable estimate of expected General Fund revenues, based upon legislation already enacted, indicates that such transfers can be paid from the General Fund promptly if needed by the special funds or within a short period of time if not needed. In determining whether this requirement has been met, the Attorney General has stated that consideration may be given to the fact that General Fund revenues are projected to exceed expenditures entitled to a higher priority than payment of internal transfers, i.e., expenditures for the support of the public school system and public institutions of higher education and the payment of debt service on general obligation bonds of the State.

At the November 1998 election voters approved Proposition 2. This proposition requires the General Fund to repay loans made from certain transportation special accounts (such as the State Highway Account) at least once per fiscal year, or up to 30 days after adoption of the annual budget act. Since the General Fund may reborrow from the transportation accounts soon after the annual repayment is made, the proposition is not expected to have any adverse impact on the State's cash flow.

The following chart shows General Fund internal borrowable resources on June 30 of each of the Fiscal Years 1996-97 through 1998-99 and estimates for 1999-2000 and 2000-01:

General Fund Internal Borrowable Resources
(Cash Basis)
(Millions)

	<u>June 30</u>				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000*</u>	<u>2001*</u>
Available Internal Borrowable Resources	\$6,242.2	\$6,866.8	\$8,720.0	\$7,650.4	\$7,667.3
Outstanding Loans					
From Special Fund for Economic Uncertainties	281.2	-0-	-0-	-0-	896.6
From Special Funds and Accounts	<u>909.2</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Outstanding Internal Loans	<u>1,190.4</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>896.6</u>
Unused Internal Borrowable Resources	<u>\$5,051.8</u>	<u>\$6,866.8</u>	<u>\$8,720.0</u>	<u>\$7,650.4</u>	<u>\$6,770.7</u>

*Estimated

SOURCE: State of California, Office of the State Controller and State of California, Department of Finance. Information for the Fiscal Years ended June 30, 1997 through 1999 are actual figures. For the Fiscal Years ending June 30, 2000 and 2001, these figures were estimated as of December 30, 1999, by the Department of Finance (except for Fiscal Year 1999-2000 Available Internal Borrowable Resources, estimated by the State Controller).

Investment of Funds

Moneys on deposit in the State's Centralized Treasury System are invested by the Treasurer in the Pooled Money Investment Account (the "PMIA"). As of March 31, 2000, the PMIA held approximately \$21.57 billion of State moneys, and \$12.48 billion of moneys invested for about 2,785 local governmental entities through the Local Agency Investment Fund ("LAIF"). The assets of the PMIA as of March 31, 2000, are shown in the following table:

Analysis of the Pooled Money Investment Account Portfolio*

<u>Type of Security</u>	<u>Amount (Millions)</u>	<u>Percent Of Total</u>
U.S. Treasury Bills and Notes	\$ 3,372	9.9%
Commercial Paper (corporate)	6,860	20.1
Certificates of Deposits	5,859	17.2
Corporate Bonds	2,582	7.6
Federal Agency Securities	8,735	25.6
Bankers Acceptances	0	0.0
Bank Notes	1,890	5.5
Loans Per Government Code	1,928	5.7
Time Deposits	3,178	9.3
Repurchases	0	0.0
Reverse Repurchases	<u>(348)</u>	<u>(1.0)</u>
	<u>\$34,056</u>	<u>100%</u>

*Totals may not add due to rounding.

SOURCE: State of California, Office of the Treasurer.

The State's treasury operations are managed in compliance with the California Government Code and according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The PMIA

operates with the oversight of the PMIB (consisting of the State Treasurer, the State Controller and the Director of Finance). The LAIF portion of the PMIA operates with the oversight of the Local Agency Investment Advisory Board (consisting of the State Treasurer and four other appointed members).

The Treasurer does not invest in leveraged products or inverse floating rate securities. The investment policy permits the use of reverse repurchase agreements subject to limits of no more than 10 percent of the PMIA. All reverse repurchase agreements are cash matched either to the maturity of the reinvestment or an adequately positive cash flow date which is approximate to the maturity of the reinvestment.

The average life of the investment portfolio of the PMIA as of March 31, 2000 was 201 days.

State Warrants

No money may be drawn from the State Treasury except upon a warrant duly issued by the State Controller. The State Controller is obligated to draw every warrant on the fund out of which it is payable for the payment of money directed by State law to be paid out of the State Treasury; however, a warrant may not be drawn unless authorized by law and unless unexhausted specific appropriations provided by law are available to meet it. State law provides two methods for the State Controller to respond if the General Fund has insufficient "Unapplied Money" available to pay a warrant when it is drawn, referred to generally as "registered warrants" and "reimbursement warrants." "Unapplied Money" consists of money in the General Fund for which outstanding warrants have not already been drawn and which would remain in the General Fund if all outstanding warrants previously drawn and then due were paid. Unapplied Money may include moneys transferred to the General Fund from the SFEU and internal borrowings from the special funds (to the extent permitted by law).

If a warrant is drawn on the General Fund for an amount in excess of the amount of Unapplied Money in the General Fund, after deducting from such Unapplied Money the amount, as estimated by the State Controller, required by law to be set apart for obligations having priority over obligations to which such warrant is applicable, the warrant must be registered by the State Treasurer on the reverse side as not paid because of the shortage of funds in the General Fund. The State Controller then delivers such a "registered warrant" to persons or entities (e.g., employees, suppliers and local governments) otherwise entitled to receive payments from the State. A registered warrant bears interest at a rate designated by the PMIB up to a maximum of 5 percent per annum. Registered warrants have no fixed maturity date, but are redeemed when the Controller, with the approval of the PMIB, determines there would be sufficient Unapplied Money in the General Fund. The State Controller notifies the State Treasurer, who publishes a notice that the warrants in question are payable.

In lieu of issuing individual registered warrants to numerous creditors, there is an alternative procedure whereby the Governor, upon request of the State Controller, may create a General Cash Revolving Fund in the State Treasury which may borrow from other State special funds to meet payments authorized by law. The State Controller may then issue "reimbursement

warrants” at competitive bid to reimburse the General Cash Revolving Fund, thereby increasing cash resources for the General Fund to cover required payments. The General Cash Revolving Fund is created solely to facilitate the issuance of registered reimbursement warrants. Reimbursement warrants have a fixed maturity date, and must be paid by the State Treasurer on their maturity date from any Unapplied Money in the General Fund and available therefor.

Welfare Reform

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193, the “Law”) has fundamentally reformed the nation’s welfare system. Among its many provisions, the Law includes: (i) conversion of Aid to Families with Dependent Children from an entitlement program to a block grant titled Temporary Assistance for Needy Families (TANF), with lifetime time limits on TANF recipients, work requirements and other changes; (ii) provisions denying certain federal welfare and public benefits to legal noncitizens (this provision has been amended by subsequent federal law), allowing states to elect to deny additional benefits (including TANF) to legal noncitizens, and generally denying almost all benefits to illegal immigrants; and (iii) changes in the Food Stamp program, including reducing maximum benefits and imposing work requirements. The block grant formula under the Law is operative through federal fiscal year 2002.

California’s response to the federal welfare reforms is embodied in Chapter 270, Statutes of 1997. This basic state welfare program, called California Work Opportunity and Responsibility to Kids (“CalWORKs”), replaced the former Aid to Families with Dependent Children (AFDC) and Greater Avenues to Independence (GAIN) programs, effective January 1, 1998. Consistent with the federal law, CalWORKs contains time limits on receipt of welfare aid, both lifetime as well as for any current period on aid. The centerpiece of CalWORKs is the linkage of eligibility to work participation requirements. Administration of the CalWORKs program is largely at the county level, and the counties receive financial incentives for success in this program. Counties have been successful in earning performance incentive payments and have earned amounts in excess of the available appropriation for 1998-99 and, it is estimated, for 1999-00 as well. The Administration proposes to modify the current incentive structure in 2000-01 to permit adequate funding for other CalWORKs program demands in the future and proposes to put a limit on county incentives earned after 1999-00 to the annual Budget Act appropriation for incentives. No appropriation is proposed for new county incentive earnings in 2000-01.

In addition, the Administration proposes to establish a \$294.3 million TANF reserve for contingencies. These funds will be available for unanticipated needs in any Department of Social Services program for which TANF funds are appropriated, including CalWORKs benefit, employment services, and county administration costs. The funds also may be used to pay any prior year CalWORKs county performance incentives earned by counties which have spent the incentive funds allocated to them from the funds appropriated for incentives through 1999-00.

To date, the implementation of the CalWORKs program has continued the trend of declining welfare caseloads. The CalWORKs caseload is projected to be 580,000 in 1999-00 and 549,000 in 2000-01, down from a high of 921,000 cases in 1994-95. The longer-term impact of

the new federal law and CalWORKs is being evaluated by the RAND Corporation, with a series of reports to be furnished and the final report due October 2001.

The 2000-01 CalWORKs budget reflects California's success in meeting the federally-mandated work participation requirements for federal fiscal year 1998. With that goal being met, the federally-imposed maintenance-of-effort (MOE) level for California is reduced from 80 percent of the federal fiscal year 1994 baseline expenditures for the former AFDC program (\$2.9 billion) to 75 percent (\$2.7 billion). It is still uncertain if the State will meet the work participation requirements for federal fiscal year 1999; however, due to program changes, it is expected that California will meet the work participation goal in federal fiscal year 2000 and beyond.

In addition, California has received a TANF High Performance Bonus award of \$45.5 million. This one-time bonus is awarded to states for their successes in moving welfare recipients to work and sustaining their participation in the workforce. Using this award, the Administration proposes the establishment of an additional TANF reserve that will be available for any Department of Social Services program for which TANF funds have been appropriated in the Budget Act.

The 2000-01 May Revision to the Governor's Budget proposes expenditures which will continue to meet, but not exceed, the federally-required \$2.7 billion combined State and county MOE requirement. Total CalWORKs-related expenditures are estimated to be \$7.2 billion for 1999-00 and \$7.0 billion for 2000-01, including child care transfer amounts for the Department of Education.

Local Governments

The primary units of local government in California are the counties, which range in population from 1,200 in Alpine County to over 9,900,000 in Los Angeles County. Counties are responsible for the provision of many basic services, including indigent health care, welfare, jails and public safety in unincorporated areas. There are also 475 incorporated cities, and thousands of special districts formed for education, utility and other services. The fiscal condition of local governments has been constrained since "Proposition 13" was enacted by California voters in 1978. Proposition 13 reduced and limited the future growth of property taxes and limited the ability of local governments to impose "special taxes" (those devoted to a specific purpose) without two-thirds voter approval. Counties, in particular, have had fewer options to raise revenues than many other local government entities, and have been required to maintain many services.

In the aftermath of Proposition 13, the State provided aid to local governments from the General Fund to make up some of the loss of property tax moneys, including taking over the principal responsibility for funding K-12 schools and community colleges. During the recession of the early 1990's, the Legislature eliminated most of the remaining components of post-Proposition 13 aid to local government entities other than K-14 education districts by requiring cities and counties to transfer some of their property tax revenues to school districts. However, the Legislature also provided additional funding sources (such as sales taxes) and reduced certain

mandates for local services. Since then the State has also provided additional funding to counties and cities through such programs as health and welfare realignment, welfare reform, trial court restructuring, the COPs program supporting local public safety departments, and various other measures.

The 1999 Budget Act included a \$150 million one-time subvention from the General Fund to local agencies for relief from the 1992 and 1993 property tax shifts. Legislation has been passed, subject to voter approval at the election in November, 2000, to provide a more permanent payment to local governments to offset the property tax shift. In addition, legislation was enacted in 1999 to provide approximately \$35.8 million annual relief to cities based on 1997-98 costs of jail booking and processing fees paid to counties.

Historically, funding for the State's trial court system was divided between the State and the counties. However, Chapter 850, Statutes of 1997, implemented a restructuring of the State's trial court funding system. Funding for the courts, with the exception of costs for facilities, local judicial benefits, and revenue collection, was consolidated at the State level. The county contribution for both their general fund and fine and penalty amounts is capped at the 1994-95 level and becomes part of the Trial Court Trust Fund, which supports all trial court operations. The State assumed responsibility for future growth in trial court funding. The consolidation of funding is intended to streamline the operation of the courts, provide a dedicated revenue source, and relieve fiscal pressure on the counties. Beginning in 1998-99, the county general fund contribution for court operations was reduced by \$290 million, and cities retained \$62 million in fine and penalty revenue previously remitted to the State. The General Fund reimbursed the \$352 million revenue loss to the Trial Court Trust Fund. The 1999 Budget Act included funds to further reduce the county general fund contribution by an additional \$96 million. The 2000 May Revision proposes to continue this permanent assistance to local governments.

The entire statewide welfare system has been changed in response to the change in federal welfare law enacted in 1996 (see "Welfare Reform" above). Under the CalWORKs program, counties are given flexibility to develop their own plans, consistent with State law, to implement the program and to administer many of its elements, and their costs for administrative and supportive services are capped at the 1996-97 levels. Counties are also given financial incentives if, at the individual county level or statewide, the CalWORKs program produces savings associated with specified standards. Counties will still be required to provide "general assistance" aid to certain persons who cannot obtain welfare from other programs.

In 1996, voters approved Proposition 218, entitled the "Right to Vote on Taxes Act," which incorporates new Articles XIII C and XIII D into the California Constitution. These new provisions place limitations on the ability of local government agencies to impose or raise various taxes, fees, charges and assessments without voter approval. Certain "general taxes" imposed after January 1, 1995, must be approved by voters in order to remain in effect. In addition, Article XIII C clarifies the right of local voters to reduce taxes, fees, assessments or charges through local initiatives. Proposition 218 does not affect the State or its ability to levy or collect taxes.

State Appropriations Limit

The State is subject to an annual appropriations limit imposed by Article XIII B of the State Constitution (the "Appropriations Limit"). The Appropriations Limit does not restrict appropriations to pay debt service on voter-authorized bonds.

Article XIII B prohibits the State from spending "appropriations subject to limitation" in excess of the Appropriations Limit. "Appropriations subject to limitation," with respect to the State, are authorizations to spend "proceeds of taxes," which consist of tax revenues, and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by that entity in providing the regulation, product or service," but "proceeds of taxes" exclude most state subventions to local governments, tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not "proceeds of taxes," such as reasonable user charges or fees and certain other non-tax funds.

There are various types of appropriations excluded from the Appropriations Limit. For example, debt service costs of bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, most state subventions to local governments, appropriations for tax refunds, appropriations of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels, and appropriation of certain special taxes imposed by initiative (e.g., cigarette and tobacco taxes) are all excluded. The Appropriations Limit may also be exceeded in cases of emergency.

The State's Appropriations Limit in each year is based on the Limit for the prior year, adjusted annually for changes in state per capita personal income and changes in population, and adjusted, when applicable, for any transfer of financial responsibility of providing services to or from another unit of government or any transfer of the financial source for the provisions of services from tax proceeds to non tax proceeds. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts. The Appropriations Limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received over such two-year period above the combined Appropriations Limits for those two years, is divided equally between transfers to K-14 districts and refunds to taxpayers.

The Legislature has enacted legislation to implement Article XIII B which defines certain terms used in Article XIII B and sets forth the methods for determining the Appropriations Limit. California Government Code Section 7912 requires an estimate of the Appropriations Limit to be included in the Governor's Budget, and thereafter to be subject to the budget process and established in the Budget Act.

The following table shows the State's Appropriations Limit for the past three fiscal years, the current fiscal year and the proposed budget year. As of the release of the May Revision to the 2000-01 Governor's Budget, as revised by data on California personal income released by the federal Bureau of Economic Analysis on May 17, 2000, the Department of Finance projects the State's Appropriations Limit for 2000-01 will be \$54.073 billion. As of June, 2000, the

Department of Finance is in the process of determining the Appropriations Subject to the Limit. Preliminary estimates indicate the State may be over the Appropriations Limit for 1999-2000 by several hundred million dollars, and would be below the Limit for 2000-01 by three to four billion dollars. As noted above, no action will occur under Article XIII B unless the State exceeds the Limit over a two-year period.

**State Appropriations Limit
(Millions)**

	Fiscal Years				
	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>
State Appropriations Limit	\$42,002	\$44,778	\$47,573	\$50,673	\$54,073*
Appropriations Subject to Limit	<u>(35,103)</u>	<u>(40,743)</u>	<u>(43,780)</u>	<u>**</u>	<u>**</u>
Amount (Over)/Under Limit	<u>\$ 6,899</u>	<u>\$ 4,035</u>	<u>\$ 3,793</u>	<u>\$ **</u>	<u>\$ **</u>

*Estimated/Projected

** Department of Finance is presently estimating Appropriations Subject to Limit.

SOURCE: State of California, Department of Finance.

Proposition 98

On November 8, 1988, voters of the State approved Proposition 98, a combined initiative constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act.” Proposition 98 changed State funding of public education below the university level and the operation of the State Appropriations Limit, primarily by guaranteeing K-14 schools a minimum share of General Fund revenues. Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), K-14 schools are guaranteed the greater of (a) in general, a fixed percent of General Fund revenues (“Test 1”), (b) the amount appropriated to K-14 schools in the prior year, adjusted for changes in the cost of living (measured as in Article XIII B by reference to State per capita personal income) and enrollment (“Test 2”), or (c) a third test, which would replace Test 2 in any year when the percentage growth in per capita General Fund revenues from the prior year plus one half of one percent is less than the percentage growth in State per capita personal income (“Test 3”). Under Test 3, schools would receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita General Fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 would become a “credit” to schools which would be the basis of payments in future years when per capita General Fund revenue growth exceeds per capita personal income growth. Legislation adopted prior to the end of the 1988-89 Fiscal Year, implementing Proposition 98, determined the K-14 schools’ funding guarantee under Test 1 to be 40.3 percent of the General Fund tax revenues, based on 1986-87 appropriations. However, that percent has been adjusted to approximately 35 percent to account for a subsequent redirection of local property taxes, since such redirection directly affects the share of General Fund revenues to schools.

Proposition 98 permits the Legislature by two-thirds vote of both houses, with the Governor’s concurrence, to suspend the K-14 schools’ minimum funding formula for a one-year period. Proposition 98 also contains provisions transferring certain State tax revenues in excess

of the Article XIII B limit to K-14 schools (see “State Finances--State Appropriations Limit” above).

During the recession in the early 1990s, General Fund revenues for several years were less than originally projected, so that the original Proposition 98 appropriations turned out to be higher than the minimum percentage provided in the law. The Legislature responded to these developments by designating the “extra” Proposition 98 payments in one year as a “loan” from future years’ Proposition 98 entitlements, and also intended that the “extra” payments would not be included in the Proposition 98 “base” for calculating future years’ entitlements. By implementing these actions, per-pupil funding from Proposition 98 sources stayed almost constant at approximately \$4,200 from Fiscal Year 1991-92 to Fiscal Year 1993-94.

In 1992, a lawsuit was filed, called *California Teachers’ Association v. Gould*, which challenged the validity of these off-budget loans. The settlement of this case, finalized in July, 1996, provides, among other things, that both the State and K-14 schools share in the repayment of prior years’ emergency loans to schools. Of the total \$1.76 billion in loans, the State is repaying \$935 million by forgiveness of the amount owed, while schools will repay \$825 million. The State share of the repayment will be reflected as an appropriation above the current Proposition 98 base calculation. The schools’ share of the repayment will count as appropriations that count toward satisfying the Proposition 98 guarantee, or from “below” the current base. Repayments are spread over the eight-year period of 1994-95 through 2001-02 to mitigate any adverse fiscal impact.

Substantially increased General Fund revenues, above initial budget projections, in the fiscal years 1994-95 through 1999-00 have resulted in retroactive increases in Proposition 98 appropriations from subsequent fiscal years’ budgets. Because of the State’s increasing revenues, per-pupil funding at the K-12 level has increased by more than 50 percent from the level in place in 1991-92, and is estimated at about \$6,672 per ADA in 2000-01. A significant amount of the “extra” Proposition 98 monies in the last few years has been allocated to special programs, including an initiative to increase the number of computers in schools throughout the State. Furthermore, since General Fund revenue growth is expected to continue in 2000-01, the Governor has also proposed new initiatives to improve student achievement, provide better teacher recruitment and training, and provide schools with advanced technology and the opportunity to form academic partnerships to help them meet increased expectations. Additional initiatives include teacher performance bonuses, tax relief for teachers and an expansion of English Language Learners Programs. See “Current State Budget” for further discussion of education funding.

Sources of Tax Revenue

The following is a summary of the State’s major revenue sources. Further information on State revenues is contained under “Current State Budget” and “State Finances -- Recent Tax Receipts” below.

Personal Income Tax

The California personal income tax, which in 1998-99 contributed about 53 percent of General Fund revenues and transfers, is closely modeled after the federal income tax law. It is imposed on net taxable income (gross income less exclusions and deductions). The tax is progressive with rates ranging from 1.0 percent to 9.3 percent. Personal, dependent and other credits are allowed against the gross tax liability. In addition, taxpayers may be subject to an alternative minimum tax (AMT) which is much like the federal AMT.

Taxes on capital gains realizations, which have in part been linked to stock market performance, have become a larger component of personal income taxes in the last few years. For the 1999 tax year, capital gains are projected to be 18 percent of the total personal income tax liability compared to an average of 8.5 percent for the period 1985-95.

The personal income tax is adjusted annually by the change in the consumer price index to prevent taxpayers from being pushed into higher tax brackets without a real increase in income.

Sales Tax

The sales tax is imposed upon retailers for the privilege of selling tangible personal property in California. Sales tax accounted for about 32 percent of General Fund revenue and transfers in 1998-99. Most retail sales and leases are subject to the tax. However, exemptions have been provided for certain essentials such as food for home consumption, prescription drugs, gas delivered through mains and electricity. Other exemptions provide relief for a variety of sales ranging from custom computer software to aircraft. Pursuant to federal law, out-of-state sales to Californians over the Internet are not taxed by the State at this time.

The breakdown of the basic 7.25 percent rate currently imposed on a statewide basis is:

- 5.00 percent represents the State General Fund tax rate.
- 2.00 percent is dedicated to cities and counties.
- 0.25 percent is dedicated to county transit systems.

Legislation in July 1991 raised the sales tax rate by 1.25 percent to its current level. Of this amount, 0.25 percent was added to the General Fund tax rate, and the balance was dedicated to cities and counties. One-half percent was a permanent addition to counties, but with the money earmarked to trust funds to pay for health and welfare programs whose administration was transferred to counties. Another 0.5 percent of the State General Fund tax rate that was scheduled to terminate after June 30, 1993, was extended until December 31, 1993, and allocated to local agencies for public safety programs. Voters in a special election on November 2, 1993, approved a constitutional amendment to permanently extend this 0.5 percent sales tax for local public safety programs.

Currently, 0.25 percent of the state tax rate may be terminated upon certification by the Director of Finance that the balance in the budget reserve for two consecutive years will exceed 4 percent of General Fund revenues. The 0.25 percent rate can be reinstated if the Director of

Finance subsequently determines that the reserve will not exceed 4 percent of General Fund revenues.

Bank and Corporation Tax

Bank and corporation tax revenues, which comprised about 10 percent of General Fund revenues and transfers in 1998-99, are derived from the following taxes:

1. The franchise tax and the corporate income tax are levied at an 8.84 percent rate on profits. The former is imposed on corporations for the privilege of doing business in California, while the latter is imposed on corporations that derive income from California sources but are not sufficiently present to be classified as doing business in the State.
2. Banks and other financial corporations are subject to the franchise tax plus an additional tax at the rate of 2 percent on their net income. This additional tax is in lieu of personal property taxes and business license taxes.
3. The alternative minimum tax (AMT) is similar to that in federal law. In general, the AMT is based on a higher level of net income computed by adding back certain tax preferences. This tax is imposed at a rate of 6.65 percent.
4. A minimum franchise tax of up to \$800 is imposed on corporations subject to the franchise tax but not on those subject to the corporate income tax. Beginning in 2000, all new corporations are exempted from the minimum franchise tax for the first two years of incorporation.
5. Sub-Chapter S corporations are taxed at 1.5 percent of profits.

Insurance Tax

The majority of insurance written in California is subject to a 2.35 percent gross premium tax. For insurers, this premium tax takes the place of all other state and local taxes except those on real property and motor vehicles. Exceptions to the 2.35 percent rate are certain pension and profit-sharing plans which are taxed at the lesser rate of 0.5 percent, surplus lines and nonadmitted insurance at 3 percent and ocean marine insurers at 5 percent of underwriting profits. Insurance taxes comprised approximately 2.1 percent of General Fund revenues and transfers in 1998-99.

Other Taxes

Other General Fund major taxes and licenses include: Estate, Inheritance and Gift Taxes, Cigarette Taxes, Alcoholic Beverage Taxes, Horse Racing Revenues and trailer coach license fees. These other sources totaled approximately 2.3 percent of General Fund revenues and transfers in the 1998-99 Fiscal Year.

Special Fund Revenues

The California Constitution, codes and statutes specify the uses of certain revenue. Such receipts are accounted for in various special funds. In general, special fund revenues comprise three categories of income:

1. Receipts from tax levies which are allocated to specified functions, such as motor vehicle taxes and fees and certain taxes on tobacco products.
2. Charges for special services to specific functions, including such items as business and professional license fees.
3. Rental royalties and other receipts designated for particular purposes (e.g., oil and gas royalties).

Motor vehicle related taxes and fees accounted for about 55 percent of all special fund revenues and transfers in 1998-99. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees and vehicle license fees. During the 1998-99 fiscal year, \$8.6 billion was derived from the ownership or operation of motor vehicles. This was only 1.4 percent above the 1997-98 level, due to tax reductions enacted for vehicle license fees. About \$4.7 billion of this revenue was returned to local governments. The remainder was available for various state programs related to transportation and services to vehicle owners. These amounts (as well as those shown below in the table “Comparative Yield of State Taxes--All Funds”) include the additional fees and taxes derived from the passage of Proposition 111 in June 1990.

Vehicle License Fee. Chapter 322, Statutes of 1998 established a vehicle license fee offset program. Pursuant to this chapter, vehicle license fees were reduced by 25 percent beginning January 1, 1999. In addition, Chapter 74, Statutes of 1999, provided a one-time expansion of the offset program by an additional 10 percent for the 2000 calendar year only, and Chapter 76, Statutes of 1999, allowed a one-year reduction in vehicle license fees for certain commercial motor vehicles. For 1999-00 and 2000-01, the offset program is expected to reduce revenues by \$1.350 billion and \$1.712 billion, respectively. This loss of local revenue is replaced by the State’s General Fund.

Vehicle license fees, over and above the costs of collection and refunds authorized by law, are constitutionally defined local revenues. A continuous appropriation from the General Fund replaces the vehicle license fee revenue that local governments would otherwise lose due to the fee reductions. If in any year the Legislature fails to appropriate enough funds to fully offset the then-applicable vehicle license fee reduction, the percentage offset will be reduced to assure that local governments are not disadvantaged.

In addition to the initial 25 percent reduction, Chapter 322 also set out a series of “trigger” levels, so that the percentage fee reduction could be increased in annual stages up to a maximum of 67.5 percent in 2003 depending on whether future General Fund revenues reach the target levels. The following table shows the amount of General Fund revenues needed to implement each additional reduction level of the vehicle license fee:

<u>Percent Reduction</u>	<u>Effective As Of</u>	<u>If Revenues Equal or Exceed (\$ billions)</u>	<u>In Fiscal Year</u>
35%	January 1, 2001	\$65.287	2000-01
46.5%	January 1, 2002	\$68.979	2001-02
55%	January 1, 2003	\$72.948	2002-03
67.5%	January 1, 2003	\$74.148	2002-03

Based on the current revenue forecast, the 35 percent offset will go into effect in the 2001 calendar year, and the 46.5 percent offset will go into effect in 2002. Unless revenues make a dramatic reversal, it appears the maximum 67.5 percent offset will go into effect in 2003. The estimated cost to the General Fund to replace the vehicle license fee reductions after the full 67.5 percent offset becomes effective is \$3.9 billion per full fiscal year.

Taxes on Tobacco Products. On November 8, 1988, voters approved Proposition 99, which imposed, as of January 1, 1989, an additional 25 cents per pack excise tax on cigarettes, and a new, equivalent excise tax on other tobacco products. The initiative requires that funds from this tax be allocated to anti-tobacco education and research and indigent health services, and environmental and recreation programs.

Proposition 10, approved in 1998, increased the excise tax imposed on distributors selling cigarettes in California to 87 cents per pack effective January 1, 1999. At the same time, this proposition imposed a new excise tax on cigars, chewing tobacco, pipe tobacco, and snuff at a rate equivalent to the tax increase on cigarettes of 50 cents per pack. In addition, the higher excise tax on cigarettes automatically triggered an additional increase in the tax on other tobacco products effective July 1, 1999, with the proceeds going to the Cigarette and Tobacco Products Surtax Fund. Thus, this proposition increased the total excise tax on other tobacco products by an amount equivalent to an increase in the cigarette tax of one dollar per pack. There is litigation pending challenging the enactment of these new taxes. See "Litigation."

The state excise tax on cigarettes of 87 cents per pack and other tobacco product taxes are earmarked as follows:

- Fifty cents of the per-pack tax on cigarettes, and the equivalent rate levied on non-cigarette tobacco products, go to the California Children and Families First Trust Fund and are allocated primarily for early childhood development programs.
- Twenty-five cents of the per-pack tax on cigarettes, and the equivalent rates levied on non-cigarette tobacco products are allocated to the Cigarette and Tobacco Products Surtax Fund. These funds are appropriated for anti-tobacco education and research, indigent health services, and environmental and recreation programs. This portion of the excise tax was imposed on January 1, 1989, as voters approved Proposition 99 of 1988.
- Ten cents of the per-pack tax is allocated to the State's General Fund.

- The remaining two cents of the per-pack tax is deposited into the Breast Cancer Fund. Legislation enacted in 1993 added the additional per pack excise tax for the purpose of funding breast cancer research.

Tobacco Litigation

In 1998, the State signed a settlement agreement with the four major cigarette manufacturers. The State agreed to drop its lawsuit and not to sue in the future. Tobacco manufacturers agreed to billions of dollars in payments and restrictions in marketing activities. Under the settlement, the companies agreed to pay California governments approximately \$25 billion over a period of 25 years. Beyond 2025, payments of approximately \$1 billion per year will continue in perpetuity. Under the settlement, half of the moneys will be paid to the State and half to local governments (all counties and the cities of San Diego, Los Angeles, San Francisco and San Jose). The May Revision to the Governor’s Budget includes the receipt of \$515 million of settlement money to the General Fund in fiscal year 1999-00. In 2000-01, General Fund tobacco settlement receipts are forecast to be \$388 million.

The specific amount to be received by the State and local governments is subject to adjustment. Details in the settlement allow reduction of the companies’ payments for decreases in cigarette sales and certain types of federal legislation. Settlement payments can increase due to inflation or increases in cigarette sales. The “first annual” payment, received in April 2000, was 12 percent lower than the base settlement amount due to reduced sales. Future payment estimates have been reduced by a similar percentage. In the event that any of the companies goes into bankruptcy, the State could seek to terminate the agreement with respect to those companies filing bankruptcy actions thereby reinstating all claims against those companies. The State may then pursue those claims in the bankruptcy litigation, or as otherwise provided by law. Also, several parties have brought a lawsuit challenging the settlement and seeking damages; see “Litigation” below.

Recent Tax Receipts

The following table shows the trend of major General Fund and total taxes per capita and per \$100 of personal income for the past four years, the current fiscal year and the budget year.

Trend of State Taxes

<u>Fiscal Year</u>	<u>Taxes per Capita(a)</u>		<u>Taxes per \$100 of Personal Income</u>	
	<u>General Fund</u>	<u>Total</u>	<u>General Fund</u>	<u>Total</u>
1995-96	\$1,398.03	\$1,709.28	\$5.82	\$7.12
1996-97	1,480.87	1,803.40	5.89	7.18
1997-98	1,634.22	1,967.00	6.21	7.48
1998-99	1,737.59	2,081.68	6.26	7.50
1999-00(b).....	2,032.05	2,374.81	6.90	8.06
2000-01(b).....	2,085.09	2,440.99	6.70	7.85

(a) Data reflect population figures benchmarked to the 1990 Census.

(b) Estimated.

SOURCE: State of California, Department of Finance.

The following table gives the actual and estimated growth in revenues by major source for the last four years, the current fiscal year, and the budget year.

COMPARATIVE YIELD OF STATE TAXES—ALL FUNDS 1995-96 THROUGH 2000-01 (Modified Accrual Basis) (Thousands of Dollars)

<u>Year Ending June 30</u>	<u>Sales and Use(a)</u>	<u>Personal Income</u>	<u>Bank and Corporation (b)</u>	<u>Tobacco(c)</u>	<u>Inheritance, Estate and Gift</u>	<u>Insurance</u>	<u>Alcoholic Beverages</u>	<u>Horse Racing</u>	<u>Motor Vehicle Fuel(d)</u>	<u>Motor Vehicle Fees(e)</u>
1996	19,088,313	20,877,687(f)	5,862,420	666,779	659,338	1,131,737	269,227	104,158	2,757,289	5,009,319
1997	20,111,743	23,275,990	5,788,414	665,415	599,255	1,199,554	271,065	90,627	2,824,589	5,260,355
1998	21,331,691	27,927,940	5,836,881	644,297	780,197	1,221,285	270,947	81,930	2,853,846	5,660,574
1999	22,890,693	30,894,865	5,724,237	976,512	890,490	1,253,972	273,112	61,185	3,025,226	5,610,374
2000(g)	23,178,784(h)	38,898,000	6,655,000	1,231,800	987,000	1,294,000	281,800	34,886	3,091,957	5,176,044
2001(g)	24,220,947	41,201,000	6,800,000	1,208,500	1,047,000	1,321,000	287,000	34,082	3,172,067	5,225,761

(a) For Fiscal Years 1995-96 through 1998-99, numbers include local tax revenue from the 0.5 percent rate increase that the voters passed in November 1993, for local public safety services. For Fiscal Years 1999-00 and 2000-01 the estimates do not include this revenue.

(b) Includes the corporation income tax and, from 1996 through 1997, the unitary election fee.

(c) Proposition 10 (November 1998) increased the cigarette tax to \$0.87 per pack and added the equivalent of \$1.00 tax to other tobacco products.

(d) Motor vehicle fuel tax (gasoline), use fuel tax (diesel and other fuels), and jet fuel.

(e) Registration and weight fees, motor vehicle license fees and other fees. Due to the offset program, 1998-99 vehicle license fee values reflect a 25 percent reduction for 1999. The values reflect a 35 percent reduction for 2000, and an assumed 35 percent reduction in 2001 as well.

(f) Reflects temporary increase in top marginal rate to 11 percent, which reverted to 9.3 percent for tax years after January 1, 1996.

(g) Estimated. See "Current State Budget."

(h) As stated in footnote (a), the figures for Fiscal Years 1999-00 and 2000-01 do not include voter approved local revenue.

SOURCE: Fiscal Years 1995-96 through 1998-99: State of California, Office of the State Controller.
Fiscal Years 1999-00 and 2000-01: State of California, Department of Finance.

State Expenditures

The following table summarizes the major categories of State expenditures, including both General Fund and special fund programs.

GOVERNMENTAL COST FUNDS
(Budgetary Basis)
Schedule of Expenditures by Function and Character
1994-95 to 1998-99 Fiscal Years
(Thousands)

Function	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>
Legislative, Judicial, Executive					
Legislative.....	\$ 180,769	\$ 187,768	\$ 196,642	\$ 209,690	\$ 219,814
Judicial.....	635,916	704,112	716,712	766,932	1,346,131
Executive	653,583	691,264	961,025	919,606	958,189
State and Consumer Services	697,555	749,368	734,238	771,444	829,745
Business, Transportation and Housing					
Business and Housing.....	225,398	243,185	115,089	136,558	136,893
Transportation	3,188,749	3,334,648	3,650,506	3,924,428	4,462,905
Trade and Commerce.....	47,595	51,280	63,789	62,235	130,796
Resources	1,141,488	1,179,481	1,310,074	1,323,860	1,695,323
Environmental Protection	459,492	505,206	507,156	605,584	600,060
Health and Welfare.....	16,675,380	17,275,117	17,987,919	18,059,611	19,616,132
Correctional Programs	3,280,762	3,638,672	3,606,674	3,901,296	4,181,474
Education					
Education—K through 12	14,973,978	16,773,927	19,916,015	21,574,341	22,783,975
Higher Education.....	5,436,640	5,844,282	6,599,573	7,022,658	7,838,117
General Government					
General Administration	1,000,650	672,935	743,024	764,615	859,703
Debt Service.....	2,189,529	2,153,682	2,048,475	1,979,211	1,988,176
Tax Relief	480,430	474,179	454,509	453,030	450,213
Shared Revenues	3,188,090	3,346,240	3,690,512	3,892,036	4,151,197
Other Statewide Expenditures	(92,508)	202,158	133,309	1,373,823	891,070
Expenditure Adjustment for					
Encumbrances	694,288	(7,691)	(190,609)	(162,630)	(461,310)
Credits for Overhead Services by					
General Fund.....	(156,118)	(130,016)	(147,019)	(125,678)	(144,041)
Statewide Indirect Cost Recoveries	<u>(31,132)</u>	<u>(48,730)</u>	<u>(23,307)</u>	<u>(48,963)</u>	<u>(32,791)</u>
Total	<u>\$54,870,534</u>	<u>\$57,841,067</u>	<u>\$63,074,306</u>	<u>\$67,403,687</u>	<u>\$72,501,771</u>
Character					
State Operations	\$16,403,401	\$17,341,247	\$17,924,850	\$20,199,031	21,092,849
Local Assistance.....	37,680,952	39,973,320	44,686,447	46,666,925	50,734,442
Capital Outlay	<u>786,181</u>	<u>526,500</u>	<u>463,009</u>	<u>537,731</u>	<u>674,480</u>
Total	<u>\$54,870,534</u>	<u>\$57,841,067</u>	<u>\$63,074,306</u>	<u>\$67,403,687</u>	<u>\$72,501,771</u>

SOURCE: State of California, Office of the State Controller.

PRIOR FISCAL YEARS' FINANCIAL RESULTS

Following a severe recession beginning in 1990, the State's financial condition improved markedly during the fiscal years starting in 1995-96, with a combination of better than expected revenues, slowdown in growth of social welfare programs, and continued spending restraint based on actions taken in earlier years. The State's cash position also improved, and no external deficit borrowing occurred over the end of the last four fiscal years.

The economy grew strongly during the fiscal years beginning in 1995-96, and as a result, the General Fund took in substantially greater tax revenues (around \$2.2 billion in 1995-96, \$1.6 billion in 1996-97 and \$2.4 billion in 1997-98 and \$1.7 billion in 1998-99) than were initially planned when the budgets were enacted. These additional funds were largely directed to school spending as mandated by Proposition 98, to make up shortfalls from reduced federal health and welfare aid in 1995-96 and 1996-97 and particularly in 1998-99 to fund new program incentives.

The following were major features of the 1998 Budget Act and certain additional fiscal bills enacted before the end of the legislative session:

1. The most significant feature of the 1998-99 budget was agreement on a total of \$1.4 billion of tax cuts. The central element was a bill which provided for a phased-in reduction of the Vehicle License Fee ("VLF"). Since the VLF is transferred to cities and counties under existing law, the bill provided for the General Fund to replace the lost revenues. Starting on January 1, 1999, the VLF has been reduced by 25 percent, at a cost to the General Fund of approximately \$500 million in the 1998-99 Fiscal Year and about \$1 billion annually thereafter. See "State Finances – Sources of Tax Revenue – Special Fund Revenues" above.

In addition to the cut in VLF, the 1998-99 budget included both temporary and permanent increases in the personal income tax dependent credit (\$612 million General Fund cost in 1998-99, but less in future years), a nonrefundable renters tax credit (\$133 million), and various targeted business tax credits (\$106 million).

2. Proposition 98 funding for K-14 schools was increased by \$1.7 billion in General Fund moneys over revised 1997-98 levels, over \$300 million higher than the minimum Proposition 98 guarantee. Of the 1998-99 funds, major new programs included money for instructional and library materials, deferred maintenance, support for increasing the school year to 180 days and reduction of class sizes in Grade 9. The Budget also included \$250 million as repayment of prior years' loans to schools, as part of the settlement of the *CTA v. Gould* lawsuit. (See "State Finances - Proposition 98" above.)

3. Funding for higher education increased substantially above the actual 1997-98 level. General Fund support was increased by \$340 million (15.6 percent) for the University of California and \$267 million (14.1 percent) for the California State University system. In addition, Community Colleges funding increased by \$300 million (6.6 percent).

4. The Budget included increased funding for health, welfare and social services programs. A 4.9 percent grant increase was included in the basic welfare grants, the first increase in those grants in 9 years.

5. Funding for the judiciary and criminal justice programs increased by about 11 percent over 1997-98, primarily to reflect increased State support for local trial courts and rising prison population.

6. Major legislation enacted after the 1998 Budget Act included new funding for resources projects, a share of the purchase of the Headwaters Forest, funding for the Infrastructure and Economic Development Bank (\$50 million) and funding for the construction of local jails. The State realized savings of \$433 million from a reduction in the State's contribution to the State Teacher's Retirement System in 1998-99.

Final tabulation of revenues and expenditures contained in the 2000-01 Governor's Budget, released on January 10, 2000, reveals that stronger than expected economic conditions in the State produced total 1998-99 General Fund revenues of about \$58.6 billion, almost \$1.6 billion above the 1998 Budget Act estimates. Actual General Fund expenditures were \$57.8 billion, the amount estimated at the 1998 Budget Act. Some of this additional revenue will be directed to K-14 schools pursuant to Proposition 98. The Governor's Budget reports a balance in the SFEU at June 30, 1999, of approximately \$3.1 billion on a budgetary basis.

CURRENT STATE BUDGET

The discussion below of the 1999-00 Fiscal Year budget and the proposed 2000-01 Budget and the table under "Summary of State Revenues and Expenditures" are based on estimates and projections of revenues and expenditures for the current and upcoming fiscal years and must not be construed as statements of fact. These estimates and projections are based upon various assumptions as updated in the 2000-01 Governor's Budget, which may be affected by numerous factors, including future economic conditions in the State and the nation, and there can be no assurance that the estimates will be achieved. See "Current State Budget -- Revenue and Expenditure Assumptions" below.

Periodic reports on revenues and/or expenditures during the fiscal year are issued by the Administration, the State Controller's Office and the Legislative Analyst's Office. The Department of Finance issues a monthly Bulletin which reports the most recent revenue receipts as reported by state departments, comparing them to Budget projections. The Administration also formally updates its budget projections three times during each fiscal year, in January, May, and at budget enactment. These bulletins and other reports are available on the Internet at the following websites:

Department of Finance	www.dof.ca.gov
State Controller	www.sco.ca.gov
Legislative Analyst	www.lao.ca.gov

1999-2000 Fiscal Year Budget

Background. On January 8, 1999, Governor Davis released his proposed budget for Fiscal Year 1999-00 (the "January Governor's Budget"). The January Governor's Budget generally reported that General Fund revenues for FY 1998-99 and FY 1999-00 would be lower than earlier projections (primarily due to weaker overseas economic conditions perceived in late

1998), while some caseloads would be higher than earlier projections. The January Governor's Budget proposed \$60.5 billion of General Fund expenditures in FY 1999-00, with a \$415 million SFEU reserve at June 30, 2000.

The 1999 May Revision showed an additional \$4.3 billion of revenues for combined fiscal years 1998-99 and 1999-00. The completion of the 1999 Budget Act occurred in a timely fashion. The final Budget Bill was adopted by the Legislature on June 16, 1999, and was signed by the Governor on June 29, 1999 (the "1999 Budget Act"), meeting the Constitutional deadline for budget enactment for only the second time in the 1990's.

The Budget Act. The final 1999 Budget Act estimated General Fund revenues and transfers of \$63.0 billion, and contained expenditures totaling \$63.7 billion after the Governor used his line-item veto to reduce the legislative Budget Bill expenditures by \$581 million (both General Fund and Special Fund). The 1999 Budget Act also contained expenditures of \$16.1 billion from special funds and \$1.5 billion from bond funds. The Administration estimated that the SFEU would have a balance at June 30, 2000, of about \$880 million. Not included in this amount was an additional \$300 million which (after the Governor's vetoes) was "set aside" to provide funds for employee salary increases (to be negotiated in bargaining with employee unions), and for litigation reserves. The 1999 Budget Act anticipated normal cash flow borrowing during the fiscal year. See "State Indebtedness-Cash Flow Borrowings."

The principal features of the 1999 Budget Act include the following:

1. Proposition 98 funding for K-12 schools was increased by \$1.6 billion in General Fund moneys over revised 1998-99 levels, \$108.6 million higher than the minimum Proposition 98 guarantee. Of the 1999-00 funds, major new programs included money for reading improvement, new textbooks, school safety, improving teacher quality, funding teacher bonuses, providing greater accountability for school performance, increasing preschool and after school care programs and funding deferred maintenance of school facilities. The Budget also includes \$310 million as repayment of prior years' loans to schools, as part of the settlement of the *CTA v. Gould* lawsuit. See also "State Finances – Proposition 98" above.

2. Funding for higher education increased substantially above the actual 1998-99 level. General Fund support was increased by \$184 million (7.3 percent) for the University of California and \$126 million (5.9 percent) for the California State University system. In addition, Community Colleges funding increased by \$324.3 million (6.6 percent). As a result, undergraduate fees at UC and CSU will be reduced for the second consecutive year, and the per-unit charge at Community Colleges will be reduced by \$1.

3. The Budget included increased funding of nearly \$600 million for health and human services.

4. About \$800 million from the general fund will be directed toward infrastructure costs, including \$425 million in additional funding for the Infrastructure Bank, initial planning costs for a new prison in the Central Valley, additional equipment for train and ferry service, and payment of deferred maintenance for state parks.

5. The Legislature enacted a one-year additional reduction of 10 percent of the VLF for calendar year 2000, at a General Fund cost of about \$250 million in each of FY 1999-00 and 2000-01 to make up lost funding to local governments. Conversion of this one-time reduction to a permanent cut will remain subject to the revenue tests in the legislation adopted last year. See “State Finances – Sources of Tax Revenue – Special Fund Revenue” above. Several other targeted tax cuts, primarily for businesses, were also approved, at a cost of \$54 million in 1999-00.

6. A one-time appropriation of \$150 million, to be split between cities and counties, was made to offset property tax shifts during the early 1990’s. Additionally, an ongoing \$50 million was appropriated as a subvention to cities for jail booking or processing fees charged by counties when an individual arrested by city personnel is taken to a county detention facility.

Revised 1999-2000 Budget Estimates. The revised 1999-2000 budget included in the May 2000 Revision of the 2000-01 Governor’s Budget (the “2000 May Revision”), released on May 15, 2000, reflects the latest estimated costs or savings as provided in various pieces of legislation passed and signed after the 1999 Budget Act. As a result of the very strong economy in the State and associated extraordinary revenue receipts, revised 1999-2000 General Fund revenues are \$70.9 billion, an increase of \$7.9 billion above the projections made when the 1999 Budget Act was enacted, and \$5.7 billion above the previous estimate made in the 2000-01 Governor’s Budget in January, 2000. Revised 1999-2000 expenditures are \$67.3 billion or \$3.6 billion higher than projections at the 1999 Budget Act. These additional expenditures include a supplemental appropriation of \$665 million for Smog Impact Fee refunds (see discussion of *Jordan v. D.M.V.* case in “Litigation” below). The Department of Finance projects that the balance in the SFEU will be about \$6.9 billion at June 30, 2000, much of which will be appropriated for Fiscal Year 2000-01.

Proposed 2000-01 Fiscal Year Budget

On January 10, 2000, Governor Davis released his proposed budget for Fiscal Year 2000-01. The 2000-01 Governor’s Budget generally reflected an estimate that General Fund revenues for Fiscal Year 1999-2000 would be higher than projections made at the time of the 1999 Budget Act. Even these positive estimates proved to be greatly understated as continuing economic growth and stock market gains (at least through the first quarter of 2000) resulted in a surge of revenues. The Administration estimated in the 2000 May Revision that General Fund revenues would total \$70.9 billion in 1999-2000, and \$73.8 billion in 2000-01, a two-year increase of \$12.3 billion above the January Governor’s Budget revenue estimates. The 2000-01 revenue estimate assumes a \$545 million reduction in personal income tax revenue from the Governor’s proposal to provide an income tax exemption for all teachers in the State.

The 2000 May Revision proposes General Fund expenditures of \$78.2 billion, as compared to an original spending proposal of \$68.8 billion in the January Governor’s Budget. Included in the revised Budget are set-asides of \$500 million for legal contingencies and \$200 million for various one-time legislative initiatives. Based on the proposed revenues and expenditures, the 2000 May Revision projects the June 30, 2001 balance in the SFEU to be \$1.769 billion, up from \$1.238 billion proposed in the January Governor’s Budget.

The 2000 May Revision contains a number of proposals for spending the additional revenues, mostly in 2000-01. According to a report by the Legislative Analyst's Office, about \$7.2 billion is proposed for one-time expenditures, including a general tax rebate and senior citizen's tax relief (\$1.9 billion), aid to public schools (\$1.5 billion), transportation (\$1.5 billion), housing (\$500 million), set-asides and increased reserves (\$600 million) and other uses (\$1.2 billion). About \$5.1 billion is proposed for program enhancements which would be permanent, including increased Proposition 98 funds for schools (\$2.4 billion), tax relief (\$600 million, including the exemption for teachers mentioned above), transportation (\$440 million per year for five years), health and social services (\$1.1 billion) and other (\$600 million). All of these proposals are subject to review and action by the Legislature.

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Summary of State Revenues and Expenditures

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE—GENERAL FUND (Budgetary Basis)(a) FISCAL YEARS 1996-97 THROUGH 2000-01 (Millions)

	1996-97	1997-98	1998-99	Estimated ^(b) 1999-00	Proposed ^(c) 2000-01
Fund Balance—Beginning of Period	\$ 1,073.9	\$ 639.8	\$ 2,792.5	\$ 3,907.7	\$ 7,511.9
Restatements					
Prior Year Revenue, Transfer					
Accrual Adjustments.....	(59.0)	(165.3)	(147.1)	(709.4)	--
Prior Year Expenditure, Accrual					
Adjustments.....	88.8	498.1	162.3	652.8	--
Fund Balance—Beginning of Period, as Restated	<u>\$ 1,103.7</u>	<u>\$ 972.6</u>	<u>\$ 2,807.7</u>	<u>\$ 3,851.1</u>	<u>\$ 7,511.9</u>
Revenues.....	\$49,161.4	\$54,797.7	\$58,935.1	\$70,572.9	\$73,809.3
Other Financing Sources					
Transfers from Other Funds.....	181.5	132.0	93.9	351.3	(18.0)
Other Additions.....	<u>49.3</u>	<u>154.4</u>	<u>339.4</u>	<u>--</u>	<u>--</u>
Total Revenues and Other Sources	<u>\$49,392.2</u>	<u>\$55,084.1</u>	<u>\$59,368.4</u>	<u>\$70,924.2</u>	<u>\$73,791.3</u>
Expenditures					
State Operations.....	\$12,151.5	\$14,042.1	\$14,775.8	\$16,283.8	\$17,322.2
Local Assistance.....	37,433.8	38,990.4	42,260.3	50,583.2	58,611.5
Capital Outlay.....	53.5	57.2	235.7	396.4	2,308.3
Unclassified.....	--	--	--	--	--
Other Uses					
Transfer to Other Funds.....	<u>217.3</u>	<u>174.5</u>	<u>996.6</u>	<u>--^(d)</u>	<u>--^(d)</u>
Total Expenditures and Other Uses	<u>\$49,856.1</u>	<u>\$53,264.2</u>	<u>\$58,268.4</u>	<u>\$67,263.4</u>	<u>\$78,242.0</u>
Revenues and Other Sources Over or (Under) Expenditures and Other Uses -	<u>\$ (463.9)</u>	<u>\$ 1,819.9</u>	<u>\$ 1,100.0</u>	<u>\$ 3,660.8</u>	<u>\$ 4,450.7</u>
Fund Balance					
Reserved for Encumbrances.....	\$ 442.4	\$ 478.7	\$ 592.0	\$ 592.0	\$ 592.0
Reserved for Unencumbered Balances of Continuing Appropriations ^(e)	68.1	122.8	697.6	858.5	427.4
Reserved for School Loans ^(f)	1,459.7	1,259.7	1,009.7	699.7	349.7
Unreserved—Undesignated ^(g)	<u>(1,330.4)</u>	<u>931.3</u>	<u>1,608.4</u>	<u>5,361.7</u>	<u>1,692.1</u>
Fund Balance—End of Period	\$ 639.8	\$ 2,792.5	\$ 3,907.7	\$ 7,511.9	\$ 3,061.2

Footnotes on following page.

SOURCE: Fiscal Years 1996-97 to 1998-99: State of California, Office of the State Controller.
Fiscal Years 1999-00 and 2000-01: State of California, Department of Finance.

- (a) These statements have been prepared on a budgetary basis in accordance with State law and some modifications would be necessary in order to comply with generally accepted accounting principles (“GAAP”). The audited general purpose financial statements of the State contain a description of the differences between the budgetary basis and the GAAP basis of accounting. See “Financial Statements.”
- (b) Estimates are shown net of reimbursements and abatements.
- (c) 2000-01 May Revision, May 15, 2000. These projections are subject to completion of the legislative process to enact the 2000-01 budget.
- (d) “Transfer to Other Funds” is included either in the expenditure totals detailed above or as “Transfer from Other Funds.”
- (e) For purposes of determining whether the General Fund budget, in any given fiscal year, is in a surplus or deficit condition, Chapter 1238, Statutes of 1990, amended Government Code Section 13307. As part of the amendment, the unencumbered balances of continuing appropriations which exist when no commitment for an expenditure is made should be an item of disclosure, but the amount shall not be deducted from the fund balance. Accordingly, the General Fund condition included in the 2000-01 Governor’s Budget includes the unencumbered balances of continuing appropriations as a footnote to the statement (\$1,222.2 million in 1998-99, \$858.5 million in 1999-00 and \$427.4 million in 2000-01). However, in accordance with Government Code Section 12460, the State’s Budgetary/Legal Basis Annual Report reflects a specific reserve for the unencumbered balance for continuing appropriations.
- (f) During 1995, a reserve was established in the General Fund balance for the \$1.7 billion of previously recorded school loans which had been authorized by Chapter 703, Statutes of 1992 and Chapter 66, Statutes of 1993. These loans are deferred and are to be repaid from future General Fund appropriations. See “State Finances - Proposition 98” above for a discussion of the settlement of the CTA v. Gould lawsuit. This accounting treatment is consistent with the State’s audited financial statements prepared in accordance with GAAP.
- (g) Includes Special Fund For Economic Uncertainties (SFEU). The State Controller reports the balance in the SFEU as of June 30, 1999, to be \$1,608.4 million in compliance with Government Code §16418(e) (see “State Finances – The Special Fund for Economic Uncertainties”). Therefore, the Undesignated-Unreserved fund balance at June 30, 1999, is \$0. The Department of Finance estimates a total SFEU balance of \$6,920 million on June 30, 2000; the Department includes in its estimates of the SFEU the items reported in the table under “Reserved for Unencumbered Balances of Continuing Appropriations,” “Reserved for School Loans,” and “Unreserved-Undesignated.” The 2000-01 May Revision includes a proposed balance of the SFEU of \$1,769 million on June 30, 2001, plus set-asides in 2000-01 in the amounts of \$500 million for legal contingencies and \$200 million for legislative initiatives. These set-asides would become part of the SFEU if not appropriated for other purposes.

Revenue and Expenditure Assumptions

The table below presents the Department of Finance's budget basis statements of major General Fund revenue sources and expenditures for the 1998-99 fiscal year and the 2000 May Revision estimates for the 1999-00 and 2000-01 fiscal years.

<u>Source</u>	Revenues (Millions)			
	Actual Fiscal Year 1998-99^(b)	Original Fiscal Year 1999-00^(a)	Revised Fiscal Year 1999-00^(b)	Projected Fiscal Year 2000-01^(b)
Personal Income Tax.....	\$30,891	\$32,914	\$38,898	\$41,201
Sales and Use Tax.....	18,957	19,960	20,884	21,378
Bank and Corporation Tax.....	5,724	5,751	6,655	6,800
Insurance Tax.....	1,254	1,246	1,294	1,321
All Other.....	<u>1,789</u>	<u>3,110^(c)</u>	<u>3,193^(c)</u>	<u>3,091^(d)</u>
Total Revenues and Transfers	<u>\$58,615</u>	<u>\$62,981</u>	<u>\$70,924</u>	<u>\$73,791</u>

<u>Function</u>	Expenditures (Millions)			
	Actual Fiscal Year 1998-99^(b)	Original Fiscal Year 1999-00^(a)	Revised Fiscal Year 1999-00^(b)	Proposed Fiscal Year 2000-01^(b)
K-12 Education.....	\$23,528	\$26,418	\$27,622	\$30,492
Health and Human Services.....	16,063	16,921	17,779	20,255
Higher Education.....	7,402	8,012	8,012	9,317
Youth and Adult Correctional.....	4,547	4,739	4,802	5,182
Legislative, Judicial and Executive.....	1,888	2,195	2,338	2,535
Tax Relief.....	932	1,868	1,890	4,196
Resources.....	1,106	1,272	1,442	1,492
State and Consumer Services.....	442	482	492	528
Business, Transportation and Housing.....	311	412	402	2,616
All Other.....	<u>1,608</u>	<u>1,414</u>	<u>2,484</u>	<u>1,629</u>
Total Expenditures	<u>\$57,827</u>	<u>\$63,733</u>	<u>\$67,263</u>	<u>\$78,242</u>

(a) 1999 Budget Act.

(b) 2000-01 May Revision to the Governor's Budget.

(c) Includes \$515 million from tobacco litigation settlement payment.

(d) Includes \$388 million from tobacco litigation settlement payment.

SOURCE: State of California, Department of Finance.

The Revenue and Expenditure assumptions set forth have been based upon certain estimates of the performance of the California and national economies in calendar years 2000 and 2001. In the 2000 May Revision released on May 15, 2000, the Department of Finance projected that the California economy will continue to show strong growth in 2000, followed by more moderate gains in 2001. The projection assumes a relatively flat stock market, and a 25% reduction in stock option income in 2000-01. The economic expansion has been marked by strong growth in high technology manufacturing and business services (including software, computer programming and the Internet), nonresidential construction, entertainment and tourism-related industries. Growth in 1999 was greater than earlier years in the economic expansion, with 3.7% year-over-year increase in nonfarm payroll employment. Unemployment, now less than 5%, is at the lowest rate in over 30 years. Taxable sales in the first quarter of 2000 are 10% above year-earlier levels. Significant economic improvement in Asia (Japan excluded), ongoing strength in NAFTA partners Mexico and Canada, and stronger growth in Europe are expected to further increase California-made exports in 2000 and 2001. Nonresidential construction has been strong for the past four years. New residential construction has increased since lows of the early 1990's recession, but remains lower than during the previous economic expansion in the 1980's.

The Department set out the following estimates for California's economic performance which were used in predicting revenues and expenditures for the 2000 May Revision. Also shown was the Department's previous forecast for 2000 and 2001, contained in the Governor's 2000-01 Fiscal Year Budget.

	For 2000		For 2001	
	<u>May Revision</u> ^(a)	<u>Governor's Budget</u> ^(b)	<u>May Revision</u> ^(a)	<u>Governor's Budget</u> ^(b)
Nonfarm wage and salary employment (000)	14,493	14,478	14,877	14,845
Percent Change	3.4%	2.9%	2.6%	2.5%
Personal income (\$ billions)	\$1,077	\$1,026	\$1,135	\$1,085
Percent Change	7.4%	6.5%	5.4%	5.7%
Housing Permits (Units 000)	156	154	169	167
Consumer Price Index (% change)	3.5%	3.5%	3.6%	3.3%

(a) May Revision Forecast: May 15, 2000.

(b) Governor's Budget Forecast: January 10, 2000.

SOURCE: State of California, Department of Finance.

FINANCIAL STATEMENTS

Audited General Purpose Financial Statements of the State of California (the "Financial Statements") for the Year ended June 30, 1999 are attached as Exhibit 1 to this Appendix A. Such Financial Statements have been filed with all of the Nationally Recognized Municipal Securities Information Repositories, and are incorporated by reference into this Appendix. Potential investors may also obtain or review a copy of the Financial Statements from the following sources:

1. By accessing the Internet Website of the State Controller (www.sco.ca.gov) and clicking on the icons for “Publications;” “State and Local Government Financial Reports;” and “Comprehensive Annual Financial Report – 1999” in that order or by contacting the Office of the State Controller at (916) 445-2636.
2. By accessing the Internet Website of the State Treasurer (www.treasurer.ca.gov) and clicking on the icons for “Financial Information” and “Audited General Purpose Financial Statements” in that order, or by contacting the Office of the State Treasurer at (800) 900-3873.

Certain unaudited financial information for the six months ended December 31, 1999 is also included as Exhibit 2 to Appendix A.

ECONOMY AND POPULATION

Introduction

California’s economy, the largest among the 50 states and one of the largest in the world, has major components in high technology, trade, entertainment, agriculture, manufacturing, tourism, construction and services. Since 1994, California’s economy has been performing strongly after suffering a deep recession between 1990-93.

Population and Labor Force

The State’s July 1, 1999 population of over 34 million represented over 12 percent of the total United States population.

California’s population is concentrated in metropolitan areas. As of the April 1, 1990 census, 96 percent resided in the 23 Metropolitan Statistical Areas in the State. As of July 1, 1998, the 5-county Los Angeles area accounted for 49 percent of the State’s population, with over 16.0 million residents, and the 10-county San Francisco Bay Area represented 21 percent, with a population of over 7.0 million.

The following table shows California’s population data for 1994 through 1999.

Population 1994-99

<u>Year</u>	<u>California Population^(a)</u>	<u>% Increase Over Preceding Year</u>	<u>United States Population^(a)</u>	<u>% Increase Over Preceding Year</u>	<u>California as % of United States</u>
1994	31,790,000	0.9%	260,327,000	1.0%	12.2%
1995	32,063,000	0.9	262,803,000	0.9	12.2
1996	32,383,000	1.0	265,229,000	0.9	12.2
1997	32,957,000	1.8	267,784,000	0.9	12.3
1998	33,494,000	1.6	270,248,000	0.9	12.4
1999	34,036,000	1.6	272,691,000	0.9	12.5

(a) Population as of July 1.

SOURCE: U.S. Department of Commerce, Bureau of the Census; State of California, Department of Finance.

The following table presents civilian labor force data for the resident population, age 16 and over, for the years 1993 to 1999.

Labor Force 1993-99

<u>Year</u>	<u>Labor Force Trends (Thousands)</u>		<u>Unemployment Rate (%)</u>	
	<u>Labor Force</u>	<u>Employment</u>	<u>California</u>	<u>United States</u>
1993	15,360	13,918	9.4%	6.9%
1994	15,450	14,122	8.6	6.1
1995	15,412	14,203	7.8	5.6
1996	15,512	14,392	7.2	5.4
1997	15,947	14,943	6.3	4.9
1998	16,324	15,356	5.9	4.5
1999	16,586	15,722	5.2	4.2

SOURCE: State of California, Employment Development Department.

Employment, Income, Construction and Export Growth

The following table shows California's nonagricultural employment distribution and growth for 1990 and 1999.

**Payroll Employment By Major Sector
1990 and 1999**

Industry Sector	Employment (Thousands)		% Distribution of Employment	
	1990	1999	1990	1999
Mining.....	38.9	23.7	0.3%	0.2%
Construction	605.3	679.2	4.8	4.9
Manufacturing				
Nondurable goods	720.6	720.0	5.7	5.1
High Technology	686.0	513.0	5.4	3.7
Other Durable Goods	690.3	689.9	5.5	4.9
Transportation and Utilities	623.9	718.9	4.9	5.1
Wholesale and Retail Trade	3,002.2	3,193.7	23.7	22.9
Finance, Insurance				
And Real Estate	824.6	821.5	6.5	5.9
Services	3,395.3	4,377.9	26.8	31.3
Government				
Federal.....	362.1	267.6	2.9	1.9
State and Local	<u>1,712.7</u>	<u>1,967.0</u>	<u>13.5</u>	<u>14.1</u>
TOTAL				
NONAGRICULTURAL	<u>12,661.9</u>	<u>13,972.4</u>	<u>100%</u>	<u>100%</u>

SOURCE: State of California, Employment Development Department and State of California, Department of Finance.

The following tables show California's total and per capita income patterns for selected years.

Total Personal Income 1993-99^(a)

Year	California		
	Millions	% Change^(b)	California % of U.S.
1993.....	\$714,107	1.8% ^(d)	12.8%
1994 ^(c)	735,104	2.9	12.5
1995.....	771,470	4.9	12.5
1996.....	812,404	5.3	12.4
1997.....	862,756	6.2	12.4
1998.....	920,452	6.7	12.5
1999 ^(p)	988,339	7.4	12.7

(a) Historical personal income series revised by BEA, released May 17, 2000.

(b) Change from prior year.

(c) Reflects Northridge earthquake, which caused an estimated \$15 billion drop in personal income.

(p) Preliminary.

Note: Omits income for government employees overseas.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis (BEA).

Per Capita Personal Income 1993-99^(a)

<u>Year</u>	<u>California</u>	<u>% Change</u>	<u>United States</u>	<u>% Change^(b)</u>	<u>California % of U.S.</u>
1993	\$ 22,927	0.9%	\$21,718	3.0%	105.6%
1994 ^(c)	23,473	2.4	22,581	4.0	104.0
1995	24,496	4.4	23,562	4.3	104.0
1996	25,563	4.4	24,651	4.6	103.7
1997	26,779	4.8	25,924	5.2	103.3
1998	28,163 ^(b)	5.2	27,203	4.9	103.5
1999 ^(p)	29,819	5.9	28,518	4.8	104.6

(a) Historical personal income series revised by BEA, released May 17, 2000.

(b) Change from prior year.

(c) Reflects Northridge earthquake, which caused an estimated \$15 billion drop in personal income.

(p) Preliminary

Note: Omits income for government employees overseas.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis (BEA).

The following tables show California's residential and nonresidential construction authorized by permits for selected years.

Residential Construction Authorized by Permits

<u>Year</u>	<u>Units</u>			<u>Valuation</u> ^(a) <u>(\$ mill.)</u>
	<u>Total</u>	<u>Single</u>	<u>Multiple</u>	
1994	97,047	77,115	19,932	\$14,852
1995	85,293	68,689	16,604	13,879
1996	94,283	74,923	19,360	15,289
1997	111,716	84,780	26,936	18,752
1998	125,707	94,298	31,409	21,976
1999	140,203	101,794	38,409	25,766

(a) Valuation includes additions and alterations.

SOURCE: Construction Industry Research Board

**Nonresidential Construction
(Thousands of dollars)**

<u>Year</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Other</u>	<u>Additions and Alterations</u>	<u>Total</u>
1994	\$2,108,067	\$ 649,632	\$1,051,276	\$4,080,657	\$ 7,889,632
1995	2,308,912	732,877	1,050,684	4,062,271	8,154,744
1996	2,751,909	1,140,575	1,152,425	4,539,219	9,584,128
1997	4,271,378	1,598,428	1,378,220	5,021,792	12,269,818
1998	5,419,251	2,466,530	1,782,337	5,307,901	14,976,019
1999	5,716,502	2,256,345	2,345,853	6,269,178	16,587,878

SOURCE: Construction Industry Research Board

The following table shows California's export growth for the period from 1994 through 1999.

**Exports Through California Ports
(In millions)**

<u>Year</u>	<u>Exports</u> ^(a)	<u>% Change</u>
1994	\$ 95,614.6	16.4%
1995	116,825.5	22.2
1996	124,120.0	6.2
1997	131,142.7	5.7
1998	116,282.4	-11.3
1999 ^(b)	122,092.8	5.0

(a) "free along ship" Value Basis

(b) Preliminary estimates.

SOURCE: U.S. Department of Commerce, Bureau of the Census

LITIGATION

The State is a party to numerous legal proceedings. The following are the most significant pending proceedings, as reported by the Office of the Attorney General. See “Litigation” in the main body of this Official Statement.

On December 24, 1997, lead claimant Sonoma County and a consortium of California counties filed a test claim with the Commission on State Mandates (the “Commission”) asking the Commission to determine whether the property tax shift from counties to school districts beginning in 1993-94, is a reimbursable state mandated cost. See “State Finances – Local Governments” above. The Commission denied the test claim on October 29, 1998, and the claimants sought review in the Sonoma County Superior Court. On November 10, 1999, the superior court granted the counties’ petition for writ of mandate and reversed the Commission’s decision. The State then appealed to the court of appeal and briefing in that court will be completed by the end of June 2000. Meanwhile, on April 19, 2000, the California Supreme Court denied the counties’ petition to transfer the State’s appeal directly to the Supreme Court. Should the final decision on this matter be in favor of the counties, the impact to the State General Fund could be more than \$10.0 billion. In addition, there would be an annual Proposition 98 General Fund cost of at least \$3.75 billion. This cost would grow in accordance with the annual assessed value growth rate.

On June 24, 1998, plaintiffs in *Howard Jarvis Taxpayers Association et al. v. Kathleen Connell* filed a complaint for certain declaratory and injunctive relief challenging the authority of the State Controller to make payments from the State Treasury in the absence of a state budget. On July 21, 1998, the trial court issued a preliminary injunction prohibiting the State Controller from paying moneys from the State Treasury for fiscal year 1998-99, with certain limited exceptions, in the absence of a state budget. The preliminary injunction, among other things, prohibited the State Controller from making any payments pursuant to any continuing appropriation. On July 22 and 27, 1998, various employee unions which had intervened in the case appealed the trial court’s preliminary injunction and asked the Court of Appeal to stay the preliminary injunction. On July 28, 1998, the Court of Appeal granted the unions’ requests and stayed the preliminary injunction pending the Court of Appeal’s decision on the merits of the appeal. On August 5, 1998, the Court of Appeal denied the plaintiffs’ request to reconsider the stay. Also on July 22, 1998, the State Controller asked the California Supreme Court to immediately stay the trial court’s preliminary injunction and to overrule the order granting the preliminary injunction on the merits. On July 29, 1998, the Supreme Court transferred the State Controller’s request to the Court of Appeal. The matters are now pending before the Court of Appeal. Briefs have been submitted; no date has yet been set for oral argument.

The State is involved in ongoing litigation related to state-mandated claims, initially filed in 1980 and 1981, concerning the costs of providing special education programs and services to disabled children. The case, *Thomas Hayes v. Commission on State Mandates*, related to state-mandated costs. The action involved an appeal by the Director of Finance from a 1984 decision by the State Board of Control (now succeeded by the Commission on State Mandates) in favor of the local school districts’ claims for reimbursement. In the trial and appellate courts, the State successfully established that federal special education requirements impose a “federal mandate”

upon the State. Accordingly, the courts reversed the Board of Control's decision and remanded the case to the Commission to determine what remained of the claim. On remand, the claimant identified several specific aspects of the State's special education program that allegedly exceeded federal requirements. The Commission has since expanded the claim to include supplemental claims filed by several other institutions. To date, the Legislature has not appropriated funds. The Commission issued a decision in December 1998 determining that a small number of components of the State's special education program are state mandated local costs. The administrative proceeding is in the "parameters and guidelines" stage where the Commission is considering whether and to what extent the costs associated with the state mandated components of the special education program are offset by funds that the State already allocates to that program. The State's position is that all costs are offset by existing funding. The State has the option to seek judicial review of the mandate finding. Potential liability of the State, if all potentially eligible school districts pursue timely claims, has been estimated by the Department of Finance to be in excess of \$1.5 billion, if the State is not credited for its existing funding of the program. The Commission was unable to resolve two other identified aspects of the state's program due to tie votes. As such, the Commission referred these matters to an administrative law judge for preparation of recommended decisions. One of these matters encompasses all special education services for students between the ages of 3 to 5 and 18 to 21, and thus represents significant additional potential liability if the claim is ultimately upheld and the State is denied credit for its existing funding.

In January of 1997, California experienced major flooding with preliminary estimates of property damage of approximately \$1.6 to \$2.0 billion. In *McMahon v. State*, a substantial number of plaintiffs have joined suit against the State, local agencies, and private companies and contractors seeking compensation for the damages they suffered as a result of the 1997 flooding. After various pre-trial proceedings, the State filed its answer to the plaintiffs' complaint in January of 2000. No trial date has been set. The State is vigorously defending the action.

The State is a defendant in *Ceridian Corporation v. Franchise Tax Board*, which challenges the constitutionality of a Revenue & Taxation Code section which limits deductions for insurance dividends to those dividends paid from earnings previously subject to California taxation. On August 13, 1998, the trial court issued a judgment against the Franchise Tax Board. The Franchise Tax Board has appealed the judgment. Briefing has been completed. The State has taken the position that, if the challenged section of the Revenue & Taxation Code is struck down, all deductions relating to dividends would be eliminated and the result would be additional income to the State. Plaintiffs, however, contend that if they prevail, the deduction should be extended to all dividends which would result in a one-time liability for open years of approximately \$60 million, including interest, and an annual revenue loss of approximately \$10 million. No date has yet been set for oral argument.

The State is also a defendant in *First Credit Bank etc. v. Franchise Tax Board* which challenges a Revenue & Taxation Code section similar to the one challenged in the *Ceridian* case, but applicable to a different group of corporate taxpayers. The State's motion for summary judgment is currently pending and a trial date has been set in September 2000. A decision in the *Ceridian* case could impact the outcome of this case. The State has taken the position that, if the challenged section of the Revenue & Taxation Code is struck down, all deductions relating to

dividends would be eliminated and the result would be additional income to the State. Plaintiffs, however, contend that if they prevail, the deduction should be extended to all dividends which would result in a one-time liability for open years of approximately \$385 million, including interest, and an annual revenue loss of approximately \$60 million.

The State is involved in a lawsuit related to contamination at the Stringfellow toxic waste site. In *United States, People of the State of California v. J.B. Stringfellow, Jr., et al.*, the State is seeking recovery for past costs of cleanup of the site, a declaration that the defendants are jointly and severally liable for future costs, and an injunction ordering completion of the cleanup. However, the defendants have filed a counterclaim against the State for alleged negligent acts, resulting in significant findings of liability against the State as owner, operator, and generator of wastes taken to the site. The State has appealed the rulings. Present estimates of the cleanup range from \$400 million to \$600 million. Potential State liability falls within this same range. However, all or a portion of any judgment against the State could be satisfied by recoveries from the State's insurance carriers. The State has filed a suit against certain of these carriers. The trial is expected to begin in 2001.

The State is a defendant in *Paterno v. State of California*, a coordinated action involving 3,000 plaintiffs seeking recovery for damages caused by the Yuba River flood of February 1986. The trial court found liability in inverse condemnation and awarded damages of \$500,000 to a sample of plaintiffs. The State's potential liability to the remaining plaintiffs ranges from \$800 million to \$1.5 billion. In 1992, the State and plaintiffs filed appeals. In August 1999, the Court of Appeal issued a decision reversing the trial court's judgment against the State and remanding the case for retrial on the inverse condemnation cause of action. The California Supreme Court denied plaintiffs' petition for review. No trial date has been set although trial management issues, including whether plaintiffs have the right to a jury trial on their inverse condemnation claim and whether trial should be held in Yuba County, are presently being considered by the trial court.

Plaintiffs in *County of San Bernardino v. Barlow Respiratory Hospital* and related actions seek mandamus relief requiring the State to retroactively increase out-patient Medi-Cal reimbursement rates. Plaintiffs have estimated the damages to be several hundred million dollars. The State is vigorously defending these cases, as well as related federal cases addressing the calculation of Medi-Cal reimbursement rates in the future. Trial is scheduled for September 2000.

The State is involved in two refund actions, *Cigarettes Cheaper!, et al. v. Board of Equalization, et al.* and *California Assn. Of Retail Tobacconists (CART), et al. v. Board of Equalization, et al.*, that challenge the constitutionality of Proposition 10, approved by the voters in 1998. Plaintiffs allege that Proposition 10, which increases the excise tax on tobacco products, violates 11 sections of the California Constitution and related provisions of law. Plaintiffs *Cigarettes Cheaper!* seek declaratory and injunctive relief and a refund of over \$4 million. The *CART* case filed by retail tobacconists in San Diego seeks a refund of \$5 million. Plaintiffs *McLane/Suneast* seek a refund between \$500,000 and \$1 million. The State is vigorously contesting these cases. The State's motion for judgment on the pleadings was granted but the court gave the three sets of plaintiffs permission to amend their complaints. As a result, the defendants' motion for summary judgment was taken off the calendar. A hearing on

the State's demurrer to the third amended complaint by CART, the second amended complaint by Cigarettes Cheaper! and the first amended complaint by McLane/Sun east is pending. The State has obtained several protective orders and extensive discovery continues. If the statute is declared unconstitutional, exposure may include the entire \$750 million collected annually with interest.

The State is involved in two cases challenging the constitutionality of the interest offset provisions of the Revenue and Taxation Code: *Hunt-Wesson, Inc., v. Franchise Tax Board* and *F.W. Woolworth Co. and Kinney Shoe Corporation v. Franchise Tax Board*. In both cases, the Franchise Tax Board prevailed in the California Court of Appeal and the California Supreme Court denied taxpayers' petitions for review. In both cases, the United States Supreme Court granted certiorari. On February 22, 2000, the United States Supreme Court reversed and remanded the *Hunt-Wesson* case to the California Court of Appeal for further proceedings. Although the Court did not take similar action in the *Woolworth Co.* case, it is anticipated that it will do so. The Franchise Tax Board recently estimated that the adverse decisions in these cases will result in a reduction in state revenues of approximately \$15 million annually, with past year collection and interest exposure of approximately \$95 million.

Guy F. Atkinson Company of California v. Franchise Tax Board is a corporation tax refund action involving the solar energy system tax credit provided for under the Revenue & Taxation Code. The case went to trial in May 1998 and the trial court entered judgment in favor of the Franchise Tax Board. The taxpayer has filed an appeal to the California Court of Appeal and briefing is completed. Oral argument is scheduled for June 7, 2000. The Franchise Tax Board estimates that the cost would be \$150 million annually if the plaintiff prevails. Allowing refunds for all open years would entail a refund of at least \$500 million.

Jordan, et al. v. Department of Motor Vehicles, et al., challenges the validity of the Vehicle Smog Impact Fee, a \$300 fee which is collected by the Department of Motor Vehicles from vehicle registrants when a vehicle without a California new-vehicle certification is first registered in California. The plaintiffs contend that the fee violates the interstate commerce and equal protection clauses of the United States Constitution as well as Article XIX of the State Constitution. In October, 1999 the Court of Appeal upheld a trial court judgment for the plaintiffs and the State has declined to appeal further. Although refunds through the court actions could be limited by a three-year statute of limitations, with a potential liability of about \$750 million, the Governor has proposed refunding fees collected back to the initiation of these fees in 1990. Legislation has been enacted, which the Governor is prepared to sign, providing a \$665 million supplemental appropriation in 1999-2000 to pay these claims (see "Current State Budget -- 1999-2000 Fiscal Year Budget").

PTI, Inc., et al. v. Philip Morris, et al. was filed by five distributors in the cigarette import-/re-entry business, seeking to overturn the tobacco Master Settlement Agreement (MSA) entered between 46 states and the tobacco industry in November, 1998. See "State Finances -- Tobacco Litigation" above. The primary focus of the complaint is the provision of the MSA encouraging participating states to adopt a statute requiring nonparticipating manufacturers to either become participating manufacturers and share the financial obligations under the MSA or pay money into an escrow account. Plaintiffs seek compensatory and punitive damages against

the state and state officials and an order placing tobacco settlement funds into a trust to be administered by the court for the treatment of medical expenses of persons injured by tobacco products. Plaintiffs have filed an amended complaint and the State has filed a motion to dismiss the amended complaint. A hearing on the State's motion to dismiss was heard on May 8, 2000. The potential fiscal impact of an adverse ruling is largely unknown, but could exceed the full amount of the settlement (estimated to be \$1 billion annually, of which 50 percent will go directly to the State's General Fund and the other 50 percent directly to the State's 58 counties and 4 largest cities).

In *FORCES Action Project et al. v. State of California et al.*, various smokers rights groups challenge the tobacco settlement as it pertains to California, Utah and the City and County of San Francisco. Plaintiffs assert a variety of constitutional challenges, including that the settlement represents an unlawful tax on smokers. Motions to dismiss by all defendants, including the tobacco companies, were eventually converted to summary judgment motions by the court and heard on September 17, 1999. On January 5, 2000, the court dismissed the complaint for lack of subject matter jurisdiction because the plaintiffs lacked standing to sue. The court also concluded that the plaintiffs' claims against the State and its officials are barred by the 11th Amendment. Plaintiffs have appealed. Briefing is expected to be complete by July, 2000.

Louis Bolduc et al. v. State of California et al. is a class action filed on July 13, 1999 by six Medi-Cal beneficiaries who have received medical treatment for smoking-related diseases. Plaintiffs allege the State owes them an unspecified portion of the tobacco settlement monies under a federal regulation that requires a state to turn over to an injured Medicaid beneficiary any monies the state recovers from a third party tortfeasor in excess of the costs of the care provided. The State moved to dismiss the complaint on September 8, 1999. On February 29, 2000, the court denied the State's motion to dismiss, but struck the Plaintiffs' class action allegations. The State is seeking appellate review of that portion of the court's order denying its motion to dismiss, and plaintiffs have appealed the court's striking of their class action allegations. All written briefs should be filed by August 2000.

Arnett v. California Public Employees Retirement System, et. al. was filed by seven former employees of the State of California and local agencies, seeking back wages, damages and injunctive relief. Plaintiffs are former public safety members who began employment after the age of 40 and are recipients of Industrial Disability Retirement ("IDR") benefits. Plaintiffs contend that the formula which determines the amount of IDR benefits violates the federal Age Discrimination in Employment Act of 1967 ("ADEA"). Plaintiffs contend that, but for their ages at hire, they would receive increased monthly IDR benefits similar to their younger counterparts who began employment before the age of 40. CalPERS has estimated the liability to the State as approximately \$315.5 million were the plaintiffs to prevail. The District Court dismissed the complaint for failure to state a claim. On August 17, 1999, the Ninth Circuit Court of Appeals reversed the District Court's dismissal of the complaint. The State sought further review in the United States Supreme Court. On January 11, 2000, the United States Supreme Court in *Kimel v. Florida Board of Regents*, held that Congress did not abrogate the sovereign immunity of the states when it enacted the ADEA. Thereafter, on January 18, 2000, the Supreme Court granted the petition for writ of certiorari in *Arnett*, vacated the judgment of the Ninth Circuit, and

remanded the case to the Ninth Circuit for further proceedings consistent with *Kimel*. In turn, the Ninth Circuit has remanded the case to the District Court and the state has filed a motion to dismiss the complaint based upon a lack of subject matter jurisdiction.

On March 30, 2000, a group of students, parents, and community based organizations representing school children in the Los Angeles Unified School District brought a lawsuit against the State Allocation Board (“SAB”), the State Office of Public School Construction (“OPSC”) and a number of State officials (*Godinez, et al. v. Davis, et al.*) in the Superior Court in the County of Los Angeles. The lawsuit principally alleges SAB and OPSC have unconstitutionally and improperly allocated funds to local school districts for new public school construction as authorized by the Class Size Reduction Kindergarten-University Public Education Facilities Bond Act (hereafter referred to as “Proposition 1A”). Plaintiffs allege that funds are not being allocated reasonably and fairly according to need on the basis of a uniform, state wide assessment of highest priority needs. Plaintiffs seek a declaration of the illegality of the current allocation system, and a preliminary and permanent injunction and/or a writ of mandate against further allocation of Proposition 1A funds unless the allocation system is modified. On May 12, 2000, Judge David P. Yaffe of the Superior Court denied Plaintiffs’ request for a temporary restraining order, and a hearing on Plaintiffs’ request for a preliminary injunction is scheduled on June 20, 2000. The State will vigorously defend this lawsuit. The Plaintiffs have not questioned the legality of, or sought any relief concerning, any commercial paper notes or bonds issued by the State under Proposition 1A, all of which funded projects based on allocations made prior to the filing of the lawsuit. The Attorney General is of the opinion that the lawsuit does not affect the validity of any State bonds.

STATE DEBT TABLES

The tables which follow provide information on outstanding State debt, authorized but unissued general obligation bonds and commercial paper notes, debt service requirements for State general obligation and lease-purchase bonds, and authorized and outstanding State revenue bonds. For purposes of these tables, “General Fund bonds,” also known as “non-self liquidating bonds,” are general obligation bonds expected to be paid from the General Fund without reimbursement from any other fund. Although the principal of general obligation commercial paper notes in the “non-self liquidating” category is legally payable from the General Fund, the State expects that principal of such commercial paper notes will be paid only from the issuance of new commercial paper notes or the issuance of long-term general obligation bonds to retire the commercial paper notes. Interest on “non-self liquidating” general obligation commercial paper notes is payable from the General Fund.

“Enterprise Fund bonds,” also known as “self liquidating bonds,” are general obligation bonds for which program revenues are expected to be sufficient to reimburse in full the General Fund for debt service payments, but any failure to make such a reimbursement does not affect the obligation of the State to pay principal and interest on the bonds from the General Fund.

The following tables are updated quarterly. The tables do not include issuance of the following bonds: \$500,000,000 of General Obligation Bonds on April 27, 2000. As of May 24, 2000, the total amount of General Obligation Commercial Paper Notes outstanding was \$678,665,000.

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS

As of April 1, 2000

(Thousands)

GENERAL FUND BONDS (Non-Self Liquidating)	<u>Voter Authorization</u>		Bonds	CP Program	<u>Unissued (b)</u>
	<u>Date</u>	<u>Amount</u>	<u>Outstanding</u>	<u>Authorized (a)</u>	
California Earthquake Safety and Housing Rehabilitation Bond Act of 1988.....	6/7/88	\$ 150,000	\$ 95,510	\$ n.a.	\$ 0
California Library Construction and Renovation Bond Act of 1988.....	11/8/88	75,000	52,410	1,225	1,900
California Library Construction and Renovation Bond Act of 2000.....	3/7/00	350,000	0	0	350,000
California Park and Recreational Facilities Act of 1984.....	6/5/84	370,000	186,795	n.a.	1,100
California Parklands Act of 1980.....	11/4/80	285,000	58,985	n.a.	0
California Safe Drinking Water Bond Law of 1976.....	6/8/76	175,000	60,875	n.a.	2,500
California Safe Drinking Water Bond Law of 1984.....	11/6/84	75,000	36,390	n.a.	0
California Safe Drinking Water Bond Law of 1986.....	11/4/86	100,000	67,000	n.a.	6,000
California Safe Drinking Water Bond Law of 1988.....	11/8/88	75,000	52,615	6,265	2,000
California Wildlife, Coastal, and Park Land Conservation Act of 1988.....	6/7/88	776,000	511,010	n.a.	14,980
Class Size Reduction Public Education Facilities Bond Act of 1998 (Hi Ed).....	11/3/98	2,500,000	38,500	367,500	2,094,000
Class Size Reduction Public Education Facilities Bond Act of 1998 (K-12).....	11/3/98	6,700,000	1,618,165	1,728,300	3,350,000
Clean Air and Transportation Improvement Bond Act of 1990.....	6/5/90	1,990,000	1,117,310	242,925	333,300
Clean Water and Water Conservation Bond Law of 1978.....	6/6/78	375,000	71,740	n.a.	0
Clean Water and Water Reclamation Bond Law of 1988.....	11/8/88	65,000	49,880	0	0
Clean Water Bond Law of 1970.....	11/3/70	250,000	5,500	n.a.	0
Clean Water Bond Law of 1974.....	6/4/74	250,000	11,260	n.a.	0
Clean Water Bond Law of 1984.....	11/6/84	325,000	111,105	n.a.	0
Community Parklands Act of 1986.....	6/3/86	100,000	55,995	n.a.	0
Cty. Correctional Fac. Capital Expenditure and Youth Fac. Bond Act of 1988.....	11/8/88	500,000	330,135	7,880	0
Cty. Correctional Facility Capital Expenditure Bond Act of 1986.....	6/3/86	495,000	282,525	n.a.	0
Cty. Jail Capital Expenditure Bond Act of 1981.....	11/2/82	280,000	103,675	n.a.	0
Cty. Jail Capital Expenditure Bond Act of 1984.....	6/5/84	250,000	96,400	n.a.	0
Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990.....	6/5/90	300,000	106,555	42,000	135,000
Fish and Wildlife Habitat Enhancement Act of 1984.....	6/5/84	85,000	38,005	n.a.	3,000
Hazardous Substance Cleanup Bond Act of 1984.....	11/6/84	100,000	39,590	n.a.	0
Higher Education Facilities Bond Act of 1986.....	11/4/86	400,000	193,150	n.a.	0
Higher Education Facilities Bond Act of 1988.....	11/8/88	600,000	328,695	4,705	7,000
Higher Education Facilities Bond Act of June 1990.....	6/5/90	450,000	278,545	7,000	1,000
Higher Education Facilities Bond Act of June 1992.....	6/2/92	900,000	703,680	13,410	12,700
Housing and Homeless Bond Act of 1988.....	11/8/88	300,000	114,010	n.a.	0
Housing and Homeless Bond Act of 1990.....	6/5/90	150,000	80,365	n.a.	0
Lake Tahoe Acquisitions Bond Act.....	8/2/82	85,000	41,160	n.a.	0
New Prison Construction Bond Act of 1981.....	6/8/82	495,000	125,750	n.a.	0
New Prison Construction Bond Act of 1984.....	6/5/84	300,000	92,500	n.a.	0
New Prison Construction Bond Act of 1986.....	11/4/86	500,000	259,205	n.a.	1,500
New Prison Construction Bond Act of 1988.....	11/8/88	817,000	451,740	7,600	8,400
New Prison Construction Bond Act of 1990.....	6/5/90	450,000	272,150	20,100	0

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS

(Continued)

	<u>Voter Authorization</u>		<u>Bonds</u>	<u>CP Program</u>	<u>Unissued (b)</u>
	<u>Date</u>	<u>Amount</u>	<u>Outstanding</u>	<u>Authorized (a)</u>	
Passenger Rail and Clean Air Bond Act of 1990.....	6/5/90	\$ 1,000,000	\$ 660,490	\$ 24,900	\$ 0
Public Education Facilities Bond Act of 1996.....	3/26/96	3,000,000	2,430,690	373,105	44,700
1988 School Facilities Bond Act.....	11/8/88	800,000	468,440	7,000	0
1990 School Facilities Bond Act.....	6/5/90	800,000	492,805	3,745	0
1992 School Facilities Bond Act.....	11/3/92	900,000	681,081	15,094	0
Safe, Clean Reliable Water Supply Act of 1996.....	11/5/96	995,000	197,135	84,000	707,000
Safe Drinking Water Bond Act of 2000.....	3/7/00	1,970,000	0	0	1,970,000
Safe Neighborhood Parks Bond Act of 2000.....	3/7/00	2,100,000	0	0	2,100,000
School Building and Earthquake Bond Act of 1974	11/5/74 (c)	40,000	35,995	n.a.	0
School Facilities Bond Act of 1988.....	6/7/88	800,000	425,255	n.a.	0
School Facilities Bond Act of 1990.....	11/6/90	800,000	517,520	8,500	0
School Facilities Bond Act of 1992.....	6/2/92	1,900,000	1,323,665	53,900	0
Seismic Retrofit Bond Act of 1996.....	3/26/96	2,000,000	911,260	595,145	448,000
Senior Center Bond Act of 1984.....	11/6/84	50,000	17,250	n.a.	0
State Beach, Park, Recreational and Historical Facilities Bonds.....	6/4/74	250,000	2,355	n.a.	0
State School Building Lease-Purchase Bond Law of 1982.....	11/2/82	500,000	95,720	n.a.	0
State School Building Lease-Purchase Bond Law of 1984.....	11/6/84	450,000	187,750	n.a.	0
State School Building Lease-Purchase Bond Law of 1986.....	11/4/86	800,000	410,900	n.a.	0
State, Urban, and Coastal Park Bond Act of 1976.....	11/2/76	280,000	21,705	n.a.	0
Veterans' Homes Bond Act of 2000.....	3/7/00	50,000	0	0	50,000
Water Conservation and Water Quality Bond Law of 1986.....	6/3/86	150,000	72,505	n.a.	39,500
Water Conservation Bond Law of 1988.....	11/8/88	60,000	35,235	13,435	3,000
Total General Fund Bonds.....		<u>\$ 42,138,000</u>	<u>\$ 17,126,636</u>	<u>\$ 3,627,734</u>	<u>\$ 11,686,580</u>
ENTERPRISE FUND BONDS (Self Liquidating)					
California Water Resources Development Bond Act of 1959.....	11/8/60	\$ 1,750,000	\$ 951,370	\$ n.a.	\$ 167,600
State School Building Aid and Earthquake Reconstruction and Replacement Bond Law of 1974.....	11/5/74 (c)	110,000	1,250	n.a.	0
Veterans Bonds.....	(d)	5,610,000	2,558,630	14,000	176,835
Total Enterprise Fund Bonds.....		<u>\$ 7,470,000</u>	<u>\$ 3,511,250</u>	<u>\$ 14,000</u>	<u>\$ 344,435</u>
TOTAL GENERAL OBLIGATION BONDS.....		<u>\$ 49,608,000</u>	<u>\$ 20,637,886</u>	<u>3,641,734</u>	<u>\$ 12,031,015</u>

(a) Total commercial paper authorized to be issued by the respective Finance Committees. Of this total \$773,565,000 is outstanding as of April 1, 2000.

Pursuant to terms of the Finance Committee resolutions, no more than \$1.5 billion of commercial paper can be outstanding at any one time.

Bond acts marked "n.a." are not legally permitted to utilize commercial paper, or all bonds were issued before the commercial paper program began.

(b) Treats full commercial paper authorization as issued; see footnote (a).

(c) Pursuant to Prop 203, passed by the voters in the March 26, 1996 primary election, \$40 million in bonds unissued at that time became general fund supported, while all previously issued bonds will remain under "State School Building Aid Bonds" as self-liquidating Enterprise Bonds

(d) Various dates.

SOURCE: State of California, Office of the Treasurer.

OUTSTANDING STATE DEBT
FISCAL YEARS 1994-95 THROUGH 1998-99
(Dollars in Thousands Except for Per Capita Information)

	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>
Outstanding Debt(a)					
General Obligation Bonds					
General Fund (Non-Self Liquidating).....	\$ 14,903,326	\$ 14,322,086	\$ 14,250,536	\$ 14,932,766	\$ 16,202,211
Enterprise Fund (Self Liquidating).....	<u>4,171,775</u>	<u>3,934,630</u>	<u>3,699,060</u>	<u>3,906,950</u>	<u>3,674,020</u>
Total.....	\$ 19,075,101	\$ 18,256,716	\$ 17,949,596	\$ 18,839,716	\$ 19,876,231
Lease-Purchase Debt.....	<u>5,565,162</u>	<u>5,845,237</u>	<u>6,175,044</u>	<u>6,639,620</u>	<u>6,671,534</u>
Total Outstanding General Obligation Bonds and Lease-Purchase Debt.....	\$ 24,640,263	\$ 24,101,953	\$ 24,124,640	\$ 25,479,336	\$ 26,547,765
Bond Sales During Fiscal Year					
Non-Self Liquidating General Obligation Bonds.....	\$ 1,505,600	\$ 620,810	\$ 1,025,000	\$ 1,667,820	\$ 2,294,650
Self Liquidating General Obligation Bonds.....	\$ 386,930	\$ 0	\$ 0	\$ 447,535	\$ 80,000
Lease-Purchase Debt.....	\$ 598,817	\$ 779,575	\$ 1,257,630	\$ 1,245,190	\$ 456,410
Debt Service(b)					
Non-Self Liquidating General Obligation Bonds.....	\$ 1,901,265	\$ 1,960,603	\$ 1,946,333	\$ 1,878,026	\$ 1,934,628
Lease-Purchase Debt.....	\$ 425,940	\$ 482,751	\$ 532,783	\$ 577,987	\$ 652,131
General Fund Receipts(b)	\$ 44,547,812	\$ 46,731,104	\$ 49,831,217	\$ 55,261,557	\$ 58,510,860
Non-Self Liquidating General Obligation Bonds Debt Service as a Percentage of General Fund Receipts.....	4.27%	4.20%	3.91%	3.40%	3.31%
Lease-Purchase Debt Service as a Percentage of General Fund Receipts.....	0.96%	1.03%	1.07%	1.05%	1.11%
Population(c)	31,790,000	32,063,000	32,383,000	32,957,000	33,494,000
Non-Self Liquidating General Obligation Bonds Outstanding Per Capita.....	\$ 468.81	\$ 446.69	\$ 440.06	\$ 453.10	\$ 483.73
Lease-Purchase Debt Outstanding Per Capita.....	\$ 175.06	\$ 182.30	\$ 190.69	\$ 201.46	\$ 199.19
Personal Income(d)	\$ 754,269,000	\$ 798,020,000	\$ 846,017,000	\$ 905,140,000	\$ 961,600,000
Non-Self Liquidating General Obligation Bonds Outstanding as Percentage of Personal Income.....	1.98%	1.79%	1.68%	1.65%	1.68%
Lease-Purchase Debt Outstanding as Percentage of Personal Income.....	0.74%	0.73%	0.73%	0.73%	0.69%

(a) As of last day of fiscal year

(b) Calculated on a cash basis; debt service costs of bonds issued in any fiscal year largely appear in subsequent fiscal year.

(c) As of July 1, the beginning of the fiscal year.

(d) Calendar year in which fiscal year ends; 1998 & 1999 estimated.

SOURCES: Population and Personal Income: State of California, Department of Finance
Outstanding Debt, Bonds Sales During Fiscal Year and Debt Service: State of California, Office of the Treasurer.
General Fund Receipts: State of California, Office of the State Controller.

**SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND GENERAL OBLIGATION BONDS(a)
(Non-Self Liquidating)
As of April 1, 2000**

Fiscal Year Ending June 30	Current Debt		
	Interest	Principal (b)	Total
2000.....	\$ 85,559,754.83	\$ 107,020,000.00	\$ 192,579,754.83 (c)
2001.....	977,711,513.00	1,158,493,068.25	2,136,204,581.25
2002.....	899,462,962.57	1,202,465,000.00	2,101,927,962.57
2003.....	827,730,505.14	1,151,786,391.80	1,979,516,896.94
2004.....	755,186,212.95	1,077,840,000.00	1,833,026,212.95
2005.....	692,165,613.84	1,014,779,388.71	1,706,945,002.55
2006.....	628,151,393.75	951,425,000.00	1,579,576,393.75
2007.....	569,413,628.02	906,825,000.00	1,476,238,628.02
2008.....	517,298,114.18	889,823,078.31	1,407,121,192.49
2009.....	462,956,943.75	880,610,000.00	1,343,566,943.75
2010.....	409,643,825.50	811,510,000.00	1,221,153,825.50
2011.....	362,541,191.09	728,774,045.16	1,091,315,236.25
2012.....	315,660,436.30	586,180,000.00	901,840,436.30
2013.....	284,191,131.25	475,285,000.00	759,476,131.25
2014.....	260,970,473.39	399,845,000.00	660,815,473.39
2015.....	241,277,230.94	388,420,000.00	629,697,230.94
2016.....	221,311,515.74	386,135,000.00	607,446,515.74
2017.....	200,630,987.56	386,210,000.00	586,840,987.56
2018.....	180,748,874.73	385,490,000.00	566,238,874.73
2019.....	160,755,848.50	384,455,000.00	545,210,848.50
2020.....	140,887,167.25	380,755,000.00	521,642,167.25
2021.....	122,119,099.75	379,430,000.00	501,549,099.75
2022.....	103,113,289.75	363,160,000.00	466,273,289.75
2023.....	83,592,735.20	365,480,000.00	449,072,735.20
2024.....	66,010,876.59	295,740,000.00	361,750,876.59
2025.....	51,225,374.08	256,390,000.00	307,615,374.08
2026.....	38,209,918.34	218,610,000.00	256,819,918.34
2027.....	26,857,337.09	201,970,000.00	228,827,337.09
2028.....	16,863,428.59	184,470,000.00	201,333,428.59
2029.....	8,634,025.00	133,265,000.00	141,899,025.00
2030.....	2,542,756.25	73,995,000.00	76,537,756.25
Total	\$ 9,713,424,164.92	\$ 17,126,635,972.23	\$ 26,840,060,137.15

(a) Does not include commercial paper outstanding.

(b) Includes scheduled mandatory sinking fund payments as well as serial maturities.

(c) Total represents the remaining debt service requirements from May 1, 2000 through June 30, 2000.

SOURCE: State of California, Office of the Treasurer.

**SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR ENTERPRISE FUND GENERAL OBLIGATION BONDS(a)
(Self Liquidating)
As of April 1, 2000**

Fiscal Year Ending <u>June 30</u>	Current Debt		
	Interest	Principal (b)	Total
2000.....	\$ 42,895,574.49	\$ 6,050,000.00	\$ 48,945,574.49 (c)
2001.....	205,167,778.75	131,310,000.00	336,477,778.75
2002.....	195,209,543.75	134,775,000.00	329,984,543.75
2003.....	185,127,193.85	134,875,000.00	320,002,193.85
2004.....	174,678,446.25	158,140,000.00	332,818,446.25
2005.....	163,519,977.25	170,890,000.00	334,409,977.25
2006.....	151,976,139.75	161,805,000.00	313,781,139.75
2007.....	140,480,498.51	175,695,000.00	316,175,498.51
2008.....	128,385,764.80	173,755,000.00	302,140,764.80
2009.....	116,730,220.00	173,375,000.00	290,105,220.00
2010.....	105,555,047.80	168,345,000.00	273,900,047.80
2011.....	95,797,720.77	123,770,000.00	219,567,720.77
2012.....	88,384,759.75	163,330,000.00	251,714,759.75
2013.....	80,239,774.37	163,820,000.00	244,059,774.37
2014.....	73,048,287.95	130,035,000.00	203,083,287.95
2015.....	66,796,580.65	128,845,000.00	195,641,580.65
2016.....	60,163,503.25	134,245,000.00	194,408,503.25
2017.....	53,594,327.73	125,925,000.00	179,519,327.73
2018.....	47,497,032.84	105,525,000.00	153,022,032.84
2019.....	41,950,326.71	101,560,000.00	143,510,326.71
2020.....	37,342,091.80	66,830,000.00	104,172,091.80
2021.....	33,535,613.79	61,000,000.00	94,535,613.79
2022.....	29,986,592.39	57,540,000.00	87,526,592.39
2023.....	26,557,193.75	39,000,000.00	65,557,193.75
2024.....	24,295,262.50	41,330,000.00	65,625,262.50
2025.....	21,899,368.75	43,730,000.00	65,629,368.75
2026.....	19,356,062.50	70,860,000.00	90,216,062.50
2027.....	15,664,506.25	54,620,000.00	70,284,506.25
2028.....	12,489,395.00	15,500,000.00	27,989,395.00
2029.....	11,440,123.75	21,755,000.00	33,195,123.75
2030.....	10,341,567.50	17,235,000.00	27,576,567.50
2031.....	9,450,925.00	13,930,000.00	23,380,925.00
2032.....	8,622,635.00	14,740,000.00	23,362,635.00
2033.....	4,098,395.00	227,110,000.00	231,208,395.00
Total	<u>\$ 2,482,278,232.20</u>	<u>\$ 3,511,250,000.00</u>	<u>\$ 5,993,528,232.20</u>

(a) Does not include commercial paper outstanding.

(b) Includes scheduled mandatory sinking fund payments as well as serial maturities.

(c) Total represents the remaining debt service requirements from April 1, 2000 through June 30, 2000.

SOURCE: State of California, Office of the Treasurer.

**SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR LEASE-PURCHASE DEBT
As of April 1, 2000**

Fiscal Year Ending June 30	Current Debt		
	Interest	Principal (a)	Total
2000.....	\$ 103,911,328.92	\$ 36,945,000.00	\$ 140,856,328.92 (b)
2001.....	351,339,937.31	316,464,019.75	\$ 667,803,957.06
2002.....	336,584,569.51	297,175,773.02	\$ 633,760,342.53
2003.....	324,626,919.26	302,801,118.58	\$ 627,428,037.84
2004.....	308,869,088.79	310,781,386.24	\$ 619,650,475.03
2005.....	294,405,786.55	324,634,507.20	\$ 619,040,293.75
2006.....	275,341,320.93	343,527,554.60	\$ 618,868,875.53
2007.....	262,691,322.59	295,868,920.44	\$ 558,560,243.03
2008.....	244,571,824.54	303,031,787.98	\$ 547,603,612.52
2009.....	232,805,560.68	324,007,732.44	\$ 556,813,293.12
2010.....	210,343,229.84	311,481,633.76	\$ 521,824,863.60
2011.....	182,750,874.74	323,080,000.00	\$ 505,830,874.74
2012.....	165,526,391.31	305,205,000.00	\$ 470,731,391.31
2013.....	149,123,693.70	312,090,000.00	\$ 461,213,693.70
2014.....	132,482,048.48	313,225,000.00	\$ 445,707,048.48
2015.....	115,452,888.48	329,660,000.00	\$ 445,112,888.48
2016.....	97,776,049.28	308,945,000.00	\$ 406,721,049.28
2017.....	80,841,823.29	311,725,000.00	\$ 392,566,823.29
2018.....	64,312,443.47	323,930,000.00	\$ 388,242,443.47
2019.....	47,610,641.54	280,125,000.00	\$ 327,735,641.54
2020.....	32,954,883.68	247,560,000.00	\$ 280,514,883.68
2021.....	21,428,699.27	178,285,000.00	\$ 199,713,699.27
2022.....	11,956,658.73	152,615,000.00	\$ 164,571,658.73
2023.....	5,634,088.15	95,055,000.00	\$ 100,689,088.15
2024.....	1,404,390.63	15,155,000.00	\$ 16,559,390.63
2025.....	478,230.00	16,120,000.00	\$ 16,598,230.00
Total	\$ 4,055,224,693.67	\$ 6,679,494,434.01	\$ 10,734,719,127.68

(a) Includes scheduled mandatory sinking fund payments as well as serial maturities.

(b) Total represents the remaining debt service requirements from May 1, 2000 through June 30, 2000

SOURCE: State of California, Office of the Treasurer.

**STATE PUBLIC WORKS BOARD AND
OTHER LEASE-PURCHASE FINANCING
OUTSTANDING ISSUES
April 1, 2000**

<u>Name of Issue</u>	<u>Outstanding</u>
<u>GENERAL FUND SUPPORTED ISSUES:</u>	
State Public Works Board	
California Community Colleges	\$ 639,135,000
Department of Corrections *	2,600,036,141
Energy Efficiency Program (Various State Agencies) (a)	127,905,000
The Regents of The University of California * (b)	1,089,803,293
Trustees of The California State University.....	710,660,000
Various State Office Buildings.....	513,580,000
Total State Public Works Board Issues.....	\$ 5,681,119,434
Total Other State Building Lease Purchase Issues (c)	\$ 998,375,000
Total General Fund Supported Issues.....	\$ 6,679,494,434
<u>SPECIAL FUND SUPPORTED ISSUES:</u>	
East Bay State Building Authority Certificates of Participation (State of California Department of Transportation) *	\$ 79,691,804
San Bernardino Joint Powers Financing Authority (State of California Department of Transportation).....	60,620,000
San Francisco State Building Authority (State of California Department of General Services Lease) (d)	49,530,000
Total Special Fund Supported Issues.....	\$ 189,841,804
TOTAL	\$ 6,869,336,238

- * Includes the initial value of capital appreciation bonds rather than the accreted value.
- (a) This program is self-liquidating based on energy cost savings.
- (b) The Regents' obligations to the State Public Works Board are payable from lawfully available funds of The Regents which are held in The Regents' treasury funds and are separate from the State General Fund. A portion of The Regents' annual budget is derived from General Fund appropriations.
- (c) Includes \$196,615,000 Sacramento City Financing Authority Lease Revenue Bonds State of California - Cal EPA Building, 1998 Series A, which are supported by lease rentals from the California Environmental Protection Agency; these rental payments are subject to annual appropriation by the State Legislature.
- (d) The sole tenant is the California Public Utilities Commission.

SOURCE: State of California, Office of the Treasurer.

**STATE AGENCY REVENUE BONDS
AND CONDUIT FINANCING
As of June 30, 1999**

<u>Issuing Agency</u>	<u>Outstanding^(a)</u>
<u>State Programs Financing:</u>	
California State University.....	\$ 449,893,000
California Transportation Commission.....	--
Department of Water Resources.....	2,504,785,000
The Regents of the University of California.....	2,817,545,000
Trade and Commerce Agency.....	--
<u>Housing Financing:</u>	
California Housing Finance Agency.....	6,054,124,133
Veterans Revenue Debenture.....	404,215,000
<u>Conduit Financing:</u>	
California Alternative Energy and Advanced Transportation Financing Authority.....	59,535,000
California Educational Facilities Authority.....	2,170,807,227
California Health Facilities Financing Authority.....	6,075,731,560
California Infrastructure and Economic Development Bank ^{(b) (c)}	387,783,908
California Passenger Rail Financing Commission.....	--
California Pollution Control Financing Authority	5,025,116,800
California School Finance Authority.....	205,000
California Student Loan Authority.....	55,260,000
California Urban Waterfront Area Restoration Financing Authority.....	3,005,000
TOTAL.....	<u>\$ 26,008,006,628</u>

^(a) Total Outstanding does not include defeased bonds and includes the accreted values for capital appreciation bonds.

^(b) Does not include \$6.0 billion of "rate reduction bonds" issued by special purpose trusts for the benefit of three investor-owned electric utility companies representing interests in certain electric rate surcharges.

^(c) California Economic Development Financing Authority merged with California Infrastructure and Economic Development Bank effective January 1, 1999.

SOURCE: State of California, Office of the Treasurer.